FISCAL RESTRUCTURING IN UTTAR PRADESH

Background Papers

Prepared for

The Commission on Resource and Expenditure

U.P. Government

By

Ajit Kumar Singh

Ashutosh Joshi

R.C. Tyagi

December 2005

Giri Institute of Development Studies

Sector O Aliganj Housing Scheme

Lucknow 226024

BACKGROUND PAPER
On
TAXATION ON MOTOR VEHICLES

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A.K. SINGH
&
A. JOSHI

GIRI INSTITUTE OF DEVELOPMENT STUDIES
Sector O, Aiganj Housing Scheme
LUCKNOW 226 024

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TAXATION ON MOTOR VEHICLES

Introduction:

1. Road Transport provides the most important means of communication next to railways. The transport industry has also contributed increasingly to the tax revenues of the Center and States. Central government levies excise duty on the motor vehicles, motor parts and petroleum products. States, besides levying sales tax on motor vehicles and motor spirit, levy goods and passenger taxes and the motor vehicle tax under entries 56 and 57 of List – II of the Seventh Schedule to the Constitution. There is also an entry 35 in the Concurrent List regarding mechanically propelled vehicles including the principles on which taxes on such vehicles are to be levied. No law has so far been enacted by the Parliament under this entry.

2. All taxes that fall on motor vehicles will ultimately have to be borne by the user of motor transport and hence these taxes have to be looked upon as constituting the taxation of road transport services. Since road transport is an important national industry essential for the growth of trade and industry and serves as an important supplement to railways in the opening up of the country and bringing all the interior areas into the national communication network, it has been the national policy to foster the development of both goods and passenger services. In this context, the taxation of road transport services by various authorities has to be coordinated and tax policies so oriented as to ensure that the total burden does not inhibit the growth of transport services and is equitable distributed. This consideration must be kept in view in discussing the State levies on motor transport.

Basis and Rates of Taxation:

3. In case of taxes on motor vehicles, the motor vehicles have been further classified into two broad categories, viz non-transport vehicles and transport vehicles. Further, transport vehicles have been classified into taxicabs and auto rickshaws and public/private carriers. Separate rates are being charged for different categories of transport vehicles.

4. Prior to November 9, 1998 the motor vehicle tax or road tax was levied in the State under the U.P Motor Vehicle Taxation Act, 1935. The tax was levied on non-transport vehicles, viz., motor cars and motor cycles, including scooters and mopeds according to their un-laden weight; on transport vehicles viz., on taxis and stage carriages according to their seating capacity and class of routes and on good vehicles on their

authorized pay load. Passenger tax was levied under the U.P. Motor Gadi (Yatri Kar) Adhiniyam 1962. It was levied as a percentage of fare on every passenger carried by a stage carriage or contract carriage. A goods tax was levied under the U.P. Motor Gadi (Mal-Kar) Adhiniyam, 1964 as a percentage of the freight charged for the carriage of goods.

5. All the above three Acts were merged together and an Act named as The Uttar Pradesh Motor Vehicle Taxation Act, 1997 was enacted which came into force with effect from 9.11.1998. Under section 4 of this act. Tax (Road Tax) on vehicles other than transport vehicles viz., Mopeds, Scooters, Motor Cycles is levied on the basis of their unladen weight and on motor cars as a percentage of the cost of the vehicle. Likewise, tax on goods vehicles is levied on the basis of Gross Vehicle Weight (GVW). Tax on stage carriages is levied on the basis of their seating capacity and class of routes.

6. Besides above tax, additional tax is also levied on transport vehicles viz. goods carriages (Truck etc.) and passenger vehicles (stage carriage and contract carriage). Additional Tax on goods carriage is levied on the basis of Gross Vehicle Weight (GVW). Additional tax on contract stage carriage on the basis of distance run in a quarter and class of routes.

Fines:

8. Another major category of revenue from motor vehicles is fine. The main purpose of fines is not, however, revenue but deterrence. The Central Act prescribes the penalties, which can be awarded by courts after conviction for an offence, but States are authorized to fix the rates of composition fees for different offence.

Taxation Structure:

9. The table given below shows the tax structure on motor vehicles as laid down by U.P. Government in the year 2004.

(A) PRIVATE VEHICLES			
Sr No		**Type of Vehicle**	**One Time Tax (Rs)**
1		Moped	800.00
2		Scooter / Motor cycle	1500.00
3		Car / Jeep driven by petrol	2.5 % of cost value
4.		Car / Jeep driven by diesel	twice of 2.5 % of cost value
5.		Trailer attached in vehicles mentioned at (3) & (4) above	605.00
6.		Car /Jeep having unladen weight exceeding 5000 kgs	
	(i)	driven by petrol	2.5 % of cost + Rs 5324 for every 1000 kgs or part thereof
	(ii)	driven by diesel	twice of 2.5 % of cost + Rs 5324 for every 1000 kgs or part thereof
7		Trailer attached in vehicles mentioned at (6)	1210.00

(B) TRANSPORT VEHICLES			
Sr No		**Type of Vehicle**	**Tax per quarter (Rs)**
1.		Autorickshaw with seating capacity of not more than 3 persons excluding driver	95.00
2		Autorickshaw with seating capacity of 4 persons excluding driver	165.00
3		With seating capacity of more than 4 persons but not more than 6 persons excluding driver	
	(i)	three-wheelers	185.00
	(ii)	Others	230.00
4.		With seating capacity of more than 6 persons but not more than 12 persons excluding driver	
	(i)	if intended for use on 'A' class route	350.00
	(ii)	if intended for use on 'B' class route	250.00
5		With seating capacity of more than 12 persons but not more than 20 persons excluding driver **(on 'A' class route)**	
	(i)	for the first 12 seats	350.00
	(ii)	for every additional seat	30.00
		With seating capacity of more than 12 persons but not more than 20 persons excluding driver **(on 'B' class route)**	
	(i)	for the first 12 seats	350.00
	(ii)	for every additional seat	25.00
6		With seating capacity of more than 20 persons but not more than 35 persons excluding driver **(on 'A' class route)**	
	(i)	for the first 20 seats	590.00
	(ii)	for every additional seat	35.00
		With seating capacity of more than 20 persons but not more than 35 persons excluding driver **(on 'B' class route)**	
	(i)	for the first 20 seats	450.00
	(ii)	for every additional seat	30.00
7		With seating capacity of more than 35 persons excluding driver **(on 'A' class route)**	
	(i)	for the first 35 seats	1115.00
	(ii)	for every additional seat	45.00
		With seating capacity of more than 35 persons excluding driver **(on 'B' class route)**	
	(i)	for the first 35 seats	900.00
	(ii)	for every additional seat	35.00
8		Goods carriage for every metric tonne of the GVW or part thereof	
	(i)	for one region	70.00 per MT of GVW or part thereof
	(ii)	for more than one region	85.00 per MT of GVW or part thereof
1. Additional tax on Goods Carriages (on hill routes)			210.00 / MT of GVW or part thereof
2. Additional tax on Goods Carriages (on plains routes for one region)			85.00 / MT of GVW or part thereof
3. Additional tax on Goods Carriages (on plains routes for more than 1 region)			110.00 / MT of GVW or part thereof
4. Additional tax in respect of goods carriages exclusively carrying agricultural produce, minerals & petroleum goods			half of additional tax rates specified above

Source: http://www.uptransport.org

10. Rates of Additional Tax on Passenger Vehicles are shown below:

Fees:

11. Fees constitute an important source of earning of the Transport Department. The prescribed fees for various permits / certificates / licenses issued by the Transport Department as revised vide Ministry of Road Transport and Highways Notification dated March 28, 2001 are listed below:

Head / Item	Fees (Rs)
Learner License	30.00
Permanent Driving License	40.00
Permanent Driving License (in laminated card)	200.00
Renewal of DL	50.00
Driving test	50.00
Conductor License fees	half of DL fees
Endorsement of new class of vehicle in laminated card	200.00
Renewal of DL after expiry of grace period	30.00
Registration / renewal of Driver Training School	2500.00
For second copy of Registration / renewal of Driver Training School	2500.00
For appeal against orders of the Licensing Authority	100.00
Trade certificate (Motorcycle)	50.00
Trade certificate (Invalid carriage)	50.00
Renewal of trade certificate (motorcycle / invalid carriage) Others	50.00 each 200.00
Registration Book Issue / Renewal of Registration / Allotment of new number	
Invalid carriage LMV (i) non Transport (ii) Light commercial vehicle Medium passenger vehicle Heavy passenger vehicle Imported motorcycle Motor cycle Medium goods vehicle Heavy goods vehicle Imported motor vehicles NOTE: For issue of duplicate registration copy, the fees would be half of what is stated above	20.00 200.00 300.00 400.00 600.00 200.00 60.00 400.00 600.00 800.00
Transfer of ownership	half of above
Change of address	20.00
Alteration in Registration Book	50.00
Hire purchase / lease / hypothecation entry fees	100.00
Technical Fitness Fees (Test Fee)	
Two / three wheeled vehicle Light motor vehicle Medium vehicle Heavy vehicle **Grant / Renewal** of Certificate of Fitness for Motor Vehicle	100.00 200.00 300.00 400.00 100.00
Issue / renewal of Authority letter Issue of duplicate copy	5000.00 5000.00
Appeal under Rule 70	400.00
Fees for Temporary Permits, their renewal & endorsement	
For first 3 days	300.00
After first 3 days, till end of week,	300.00
After first week, for next week, or part thereof	300.00
Change of vehicle type as specified in the permit	180.00
Taxi/autorickshaw/tempo plying regularly	
For one region	750.00
for entire country	1500.00
Fees for Permits other than Temporary Permit, their renewal & endorsement	
Stage carriage/contract carriage (other than motor cab)	6000.00
Motor cab (a) for entire India. (b) for entire UP (c) for one region	 2500.00+500.00 1500.00 750.00
For goods carrier	4800.00

Source: http://www.uptransport.org

Growth in Revenue from Taxation on Motor Vehicles:

12. As shown in Table 1 total number of registered vehicles in UP has doubled between 1994-95 and 2003-04. The number of two wheelers has more than doubled, while in the case

of cars there has been a five fold increase. Despite the substantial increase in the number of registered vehicles in UP over the years, it is found that registered vehicles per lakh of population in UP was much below the all India average. During 2001 vehicles registered per lakh of population were 2804 in UP while the all India figure was 3986.

Table No. 1

Number of Registered Vehicles in U.P.

YEAR	2-wheelers	Cars	Omni bus	Mini bus	Trucks	3-wheel delivery vehicles	Tractors	Tempo/ Auto-rickshaw	Others	**Total**
94-95	167256	12200	1493	1092	5953	1156	30467	4811	3468	**227898**
95-96	168676	13978	1400	763	7310	2093	28450	5083	6686	**234439**
96-97	230933	27309	1146	588	10581	3659	34718	10796	11162	**330892**
97-98	254225	28985	1813	730	9593	3112	39311	10145	8439	**356353**
98-99	325793	33197	1244	814	9282	3837	52650	10698	12882	**450397**
99-00	329633	42766	1575	1031	8312	3921	51286	10934	10897	**460355**
00-01	406216	39840	1450	1439	7202	4817	84141	11933	7625	**564663**
01-02	364839	64241	730	745	3619	2325	38750	6927	16550	**498726**
02-03	552378	43827	1452	1005	7051	3531	40715	9546	9912	**669417**
03-04	585013	47189	1182	910	13259	3766	39421	11302	8773	**710815**

Source: http://www.uptransport.org/statistics.html

13. The increase in the number of registered vehicles has led to a corresponding increase in the revenue collection from taxes on motor vehicles. Revenue receipts from the motor vehicle tax have registered over four-fold increase between 1994-95 and 2003-04. Itemwise details of revenue receipts have been given in Table 2.

Table No. 2

Revenue Received by Transport Department in Recent Years (Rs. in Lakh)

Year	**Motor Vehicle Tax**	**Taxes from goods vehicle**	**Passenger Tax (Private)**	**Passenger Tax (UPSRTC)**	**Total**
1990-91	8542.00	15169.00		N.A	23711.00
1995-96	12546.00	22837.00		N.A	35383.00
2000-01	29261.46	14660.25	12879.09	7300	64100.8
2001-02	36058.53	14287.25	11764.52	2819	64969.3
2002-03	49923.69	16037.24	14330.56	4805	85093.49
2003-04	48235.13	18082.58	15595.90	4336	86239.61
2004-05 as on 31.01.2005	37976.96	15810.49	12584.44	3980	70048.89

Source: RBI, *Handbook of Statistics on State Government Finance, 2004.*

Revenue from Taxation from Motor Vehicles in Selected States:

14. Table 3 shows the receipts in different states from taxes on motor vehicles. In terms of total revenue receipts UP was at second place in 1990-91, but by 1998-99 its rank slipped to the fifth position and by 2002-03 (Budget Estimate figures) its rank was as low as 10. The top ranked states are Andhra Pradesh and Maharashtra. In fact

Maharashtra was the top ranked state in 1990-91 but UP was way ahead of Andhra Pradesh. This goes to show that the rate of increase of motor vehicle tax has been relatively slow in UP as compared to other states. In fact the receipts in absolute terms indicate a decline due to the fact that 13 districts of the state by bifurcated into a separate state of Uttaranchal.

Table No. 3

Receipts from Taxes on Motor Vehicle in Major States (Rs. Crores)

States	1990-91	1995-96	2000-01	2001-02	2002-03 RE	2003-04 BE	Rank 2003-04
Andhra Pradesh	186.93	461.45	834.38	944.47	992.22	1149.05	4
Bihar	85.00	163.91	266.09	288.21	394.24	492.62	12
Gujarat	201.26	412.99	653.31	775.74	940.00	980.00	6
Haryana	137.88	253.98	452.35	602.19	715.00	776.00	9
Karnataka	192.43	456.03	974.84	1210.48	1295.15	1421.15	2
Kerala	74.15	222.87	394.86	452.18	520.01	582.40	10
Madhya Pradesh	74.95	308.7	739.74	655.73	830.00	955.00	7
Maharashtra	406.17	671.54	886.07	1975.17	1633.50	1799.90	1
Orrisa	52.37	107.51	372.21	468.41	530.00	515.00	11
Punjab	107.38	190.65	338.32	318.44	433.00	385.00	13
Rajasthan	107.55	246.51	530.86	589.43	755.00	820.00	8
Tamil Nadu	227.34	392.21	831.95	931.08	1315.64	1420.00	3
Uttar Pradesh	237.11	353.83	628.89	579.69	665.00	985.89	5
West Bengal	192.58	126.9	282.55	209.67	275.00	315.00	14
Total	**2283.1**	**4369.08**	**8026.42**	**10000.89**	**11293.76**	**12597.01**	

Source: RBI, *Handbook of Statistics on State Government Finance, 2004.*

15. Table 4 shows the share of receipts from taxation on motor vehicles in total own tax revenue in selected states. In 1990-91 U.P. was placed at 9th rank among 14 states with a share of 7.5 percent. But in 2003-04 U.P. was ranked 13 among 14 major states. The only state with a share lower than U.P. was the small state of Haryana. Rajasthan topped all the states with a share of 9.30 percent, closely followed by Orrisa (8.21 percent) and Gujarat (8.17 percent). In fact, the share of Rajasthan was almost three times as high as compared to U.P. This shows that there is a good scope for raising revenue from taxation on motor vehicles in U.P.

16. Table 5 provides information regarding the per capita revenue earned from taxation on Motor Vehicles among different states. The table reveals the fact that during 2002-03 U.P. was ranked lowest among our selected states with per capita revenue of Rs. 18 only. As against this per capita revenue was as high as Rs. 166 in Kerala and Rs. 159 per capita in Gujarat. In fact, even the states ranked 12 and 13 the figures are Rs. 32 per capita (West Bengal) and Rs. 24 per capita (Bihar).

Table No. 4

Share of Motor Vehicle Tax in Own Tax Revenue

States	1990-91	1995-96	2000-01	2001-02	2002-03 RE	2003-04 BE	Rank
Andhra Pradesh	7.06	11.2	7.90	7.48	7.01	7.08	6
Bihar	7.45	8.31	6.06	6.14	7.41	7.73	4
Gujarat	8.39	7.76	6.93	7.32	8.46	8.17	3
Haryana	12.89	11.71	1.99	2.08	2.05	1.92	14
Karnataka	8.25	8.65	5.55	7.23	7.22	6.99	7
Kerala	5.53	6.59	6.73	7.63	7.02	6.71	8
Madhya Pradesh	4.27	8.77	7.20	8.36	7.85	7.57	5
Maharashtra	7.93	6.14	3.98	4.45	4.30	4.30	11
Orrisa	7.83	9.54	8.16	8.77	8.72	8.21	2
Punjab	8.31	7.19	6.91	6.61	7.42	5.95	9
Rajasthan	8.84	9.03	9.65	9.99	9.63	9.30	1
Tamil Nadu	7.28	5.48	4.81	4.98	5.62	5.40	10
Uttar Pradesh	7.5	6.47	4.95	4.87	2.53	3.14	13
West Bengal	9.03	3.07	4.77	3.21	3.68	3.25	12

Source: RBI, *Handbook of Statistics on State Government Finance, 2004.*

Table No. 5

Per capita Revenue from Motor Vehicles in Selected States (Rs.)

States	1990-91	1995-96	2000-01	2001-02	2002-03	Rank
Andhra Pradesh	28	64	110	121	134	5
Bihar	10	17	22	18	24	13
Gujarat	49	68	129	138	159	2
Haryana	85	29	43	49	52	11
Karnataka	43	93	96	120	148	3
Kerala	26	72	122	145	166	1
Madhya Pradesh	11	42	68	70	85	9
Maharashtra	52	49	86	103	111	8
Orrisa	17	31	49	61	67	10
Punjab	53	86	143	134	146	4
Rajasthan	25	50	94	100	118	6
Tamil Nadu	41	66	95	104	112	7
Uttar Pradesh	17	8	33	18	18	14
West Bengal	29	16	36	28	32	12

Source: RBI, *Handbook of Statistics on State Government Finance, 2004.*

17. The ratio of Motor Vehicle Tax to NSDP is also the third lowest in UP. among major states (Table 6). The ratio was as low as 0.48 percent during 1990-91, which fell down to 0.31 in 2001-02. Several states have shown a rising trend in the receipts from motor vehicles tax as a ratio of NSDP. The increase was particularly sharp in the case of Maharashtra, where the ratio jumped from barely 0.70 percent in 1990-91 to 4.08 percent in 2002-03 (Table 5).

Table No. 6

The Ratio of Motor Vehicle Tax to NSDP in Selected States (%)

States	1990-91	1995-96	2000-01	2001-02	2002-03 RE	2003-04 BE	Rank 2002-03
Andhra Pradesh	0.60	0.69	0.66	0.69	0.68	0.70	5
Bihar	0.37	0.47	0.41	0.33	0.40	0.51	9
Gujarat	0.83	0.53	0.70	0.67	0.66	0.58	7
Haryana	1.13	0.21	0.18	0.19	0.20	0.18	10
Karnataka	0.94	1.01	0.54	0.76	0.78	N.A.	3
Kerala	0.61	0.80	0.62	0.71	0.73	0.74	4
Madhya Pradesh	0.28	0.63	0.63	0.53	0.66	0.61	7
Maharashtra	0.70	0.31	3.83	3.79	4.08	N.A.	1
Orrisa	0.54	0.50	0.53	0.58	0.67	0.58	6
Punjab	0.64	0.54	0.58	0.51	0.68	0.55	5
Rajasthan	0.59	0.68	0.73	0.72	0.83	0.76	2
Tamil Nadu	0.82	0.66	0.47	0.51	0.60	0.59	8
Uttar Pradesh	0.48	0.14	0.36	0.31	0.17	N.A.	11
West Bengal	0.61	0.19	0.22	0.14	0.18	N.A.	12

Source: RBI, *Handbook of Statistics on State Government Finance, 2004.*

Report of the Tax Reform Commission Karnataka (2001):

18. It would be pertinent here to refer to the following observations of the *Tax Reform Commission Karnataka (2001):*

"A measure that can give substantial relief to taxpayers is authorizing dealers to do registration themselves for non-transport vehicles, once engine and the chassis numbers are certified in advance after inspection by motor vehicle inspectors as done in Delhi. There is also a possibility of diversion of the tax base within the federal tax structure because of porous State borders. Rate parity is generally maintained with neighbouring States to contain this phenomenon. When abnormally low tax rates are adopted, particularly by Union Territories, adjoining States suffer through diversion of vehicle registration. Because of stringent domicile requirements for registration and regular physical checks of out-of-State registered vehicles through monthly enforcement drives, there is constant pressure on such vehicles. If they are caught regularly running within the state for more than 30 days, motor vehicles tax is collected at applicable rates. The consequent harassment succeeds in containing large scale diversion of vehicle registration. Nonetheless, inter-State comparison of tax rates becomes necessary while contemplating changes in tax rates.

For transport vehicles, the permit system acts as a check on tax payment for vehicles operating within the State. Diversion does occur if a neighbouring State has lower tax rates and an incentive is available in the form of composite permits. Likely earnings from clandestine operation on nationalized routes are also taken into account by private passenger vehicle operators when they plan to evade taxes.

Another possible method of evasion is by declaring non-use and stationing vehicles outside the State. Continued inspection through transport departments of other States in not easy."

Points Emerging From Discussion With The Officials Of Transport Department

19. In order to obtain in-depth information regarding the various fees and taxes pertaining to the Motor Vehicle tax and the possibilities of raising revenue from this source, we had discussion with some officials in the Transport Commissioner's office and received very valuable feedback from them for regarding the needed changes in the present tax structure and other related issues. These are briefly summarized below.

20. It was pointed out by the officials that as far as the fees like learners license fee, permanent license fee and fee for the renewal of license etc. are concerned the rates are fixed by the central government and are uniform all over the country. However, the State governments do have autonomy with respect to certain road taxes and registration fees. This is where each state can exercise its own power and fix rates according to its own judgement.

21. The departmental officials strongly felt that the system of one time registration is a much better system than the old system where road tax had to be paid on an annual basis. The new system is easily manageable since it is automatically collected as soon as a vehicle is purchased.

22. While fixing the road tax the concerned state government has to keep in mind the rates prevailing in the adjoining states as well. If the rates fixed are much higher than in the adjoining states, then people living in districts in the proximity of the state will start getting their vehicles registered in the other state rather than their own resulting in a net loss to the state. For example UP shares its border with states like Delhi, Haryana, Rajasthan, Madhya Pradesh, Bihar and Uttaranchal etc. The Table No. 7 presents a comparative picture of the rates prevalent in UP and its adjoining states.

Table No. 7

One Time Registration Rates of Uttar Pradesh and Adjoining States

Type of Vehicle	Uttar Pradesh	Madhya Pradesh	Delhi	Rajasthan	Haryana	Bihar
Moped	Rs. 800	5% of vehicle Cost	Rs. 1220	4% of vehicle cost for private vehicle and 5% of vehicle cost for other vehicles	Rs 150.00	3% of vehicle cost
Scooter/Motor Cycle	Rs. 1500	5% of vehicle Cost	Rs. 1220	4% of vehicle cost for private vehicle and 5% of vehicle cost for other vehicles	Rs. 500.00	3% of vehicle cost
Motor Car	Private/Petrol Vehicle2.5% of the cost of vehicle. Minimum Rs.5000 other than private/diesel Vehicle 5% of vehicle cost	5% of vehicle Cost	upto 1000 kgs Rs 3850, 1001kgs to 1500 Kgs Rs 4800.00, 1501 kgs to 2000 kgs Rs. 7020 + Rs 4570 additional on per 1000 kgs	3% of vehicle cost for private vehicle and 6% of vehicle cost for other vehicles	upto 4 seat Rs 1700, upto 5 seats Rs. 2100. Upto 8 seats Rs. 3100, upto 10 seats Rs 4400	3% of vehicle cost

Source: Transport Commissioner U.P.

23. Table 7 highlights the fact that Madhya Pradesh, Rajasthan, and Bihar have fixed their rates in terms of a percentage of the cost of the vehicle between 3 to 5 percent. UP, Delhi and Haryana have fixed their rates as fixed amount for registration of mopeds and scooters/motor cycles. These states have a different system for motorcars and other vehicles. In the case of UP tax is in terms of a percentage to the total cost of the vehicle with different rates for petrol and diesel vehicles. Delhi has fixed rates according to the weight of the vehicle. In Haryana rates are fixed according to the seating capacity of the vehicle. Since mopeds, scooters and motorcycles are available in wide price ranges, it would be a better idea to fix the rate based on the cost of the vehicle as in is being done in the states of MP, Rajasthan and Haryana.

24. It was pointed out that the Motor Vehicle Taxation Act was amended in 1997. Even after that some changes have been incorporated and rates have been revised either upward or downward. The changes have taken place in 1999, 2000, 2001 and 2004.

25. It was pointed out that the revenue collection target for Transport Commissioner's Office was fixed at Rs. 985 crores during 2002-03. Out of this Rs. 850 crores was the share of the Transport Commissioner's Office while the remaining Rs. 135 crores was to be raised by the UP State Road Transport Corporation (UPSRTC). The UPSRTC collects money through the sale of passenger tickets and in each ticket fare a certain amount of tax is incorporated which is collected by the UPSRTC on behalf of the Transport

Commissioner and has therefore to be given to the Transport Commissioners Office and ultimately to the treasury.

The formula adopted for Tax Collection is as follows

$$\frac{\text{Gross amount of the passenger fare X 21}}{121} = \text{Passenger tax}$$

26. During 2002-03 the UPSRTC collected around Rs. 140 crores by way of this tax but deposited only around Rs. 40 crores. Thus, the overall target of the department fell short by over Rs. 100 crores. The UPSRTC did not deposit Rs. 95 crore. In fact the UPSRTC has not being paying the full passenger tax since the year 1991 and the arrears have aggregated to a huge figure of Rs. 623 crores.

27. During 2002 a scheme known as the Golden Token Scheme was introduced for goods and passenger vehicles. It was very successful and was expected to earn revenue to the tune of Rs. 150 crores during the full financial year. However, for some unidentified reason the scheme was discontinued.

28. For the financial year 2003-04 the target fixed for the Transport Commissioner's Office was raised from the previous year's figure of Rs. 985 crores to Rs. 1084 crores. However, the fact that the Golden Token Scheme was not in operation was not taken into account. Hence, the target could not be achieved.

29. For the passenger transport vehicles i.e. the stage carriages, eight different slabs had been formed. This was done on the kilometerage a vehicle was covering on a specified route on which it was plying per day. On the basis of this the total distance covered in a quarter was worked out to fix the slabs. For each slab a quarterly tax was fixed. The system was working well. But the department took the decision to merge the first three slabs and keep the tax rate fixed for the fourth slab as the uniform rate for the vehicles which were earlier in the first three categories. The bus owners who could not pay the higher rates cancelled their permits. The move to merge the four slabs, therefore, backfired as the revenue collection actually came down. It was, therefore, thought fit to revert back to the old slab rates. But this change has not yet been made effective and the department continues to suffer loss of revenue.

30. One of the main sources of revenue to the Transport Commissioner's Office is the Compounding Fee Scheme. Trucks carrying goods are allowed a maximum tonnage according to their size. Trucks are checked at various checkpoints to ensure that they are not overweight. Whenever the authorities feel that a truck is overloaded they can have it weighed and in case it has excess goods a fine is imposed. The rate of fine varies for each

tonne of extra load. However, because of corrupt practices compounding was not being done properly leading to losses to the state exchequer. The department, therefore, introduced the Self Assessment Scheme where the truck owner could declare the excess weight. On this declared excess load a reduced compounding fee was charged. This scheme met with immediate success and in the first five months of its inception Rs. 32 crores of revenue was generated. In a full financial year it was expected to generate additional revenue to the tune of Rs. 90 crores. Unfortunately, this scheme was discontinued without any concrete reason by the government.

31. The Central government rules clearly state that if an overloaded truck is held, not only should it be made to pay the compounding fee but also all the excess weight should be removed before the truck leaves the check post. The additional goods should be sent in a separate truck. The rationale behind this rule is that the government constructs roads keeping in mind their load bearing capacity. And if overloaded trucks keep plying on the roads, the roads get damaged and the cost of repair nullifies the gains from the compounding fee. The Central government provides a road fund to the states for maintenance of roads and this fund can be withheld if the state government is permitting overloaded trucks to pass through the state. Thus, not only is it essential to ensure that there are no looses of revenue through improper checking and collection of compounding fee but also that even after payment of compounding fee the trucks must be made to move only after the excess goods are unloaded.

32. The Transport Commissioner's Office is presently engaged in the task of upgrading 18 important check posts. All these check posts are being computerized and electronic barriers will be installed in them. They will also be provided electronic weighing machines and all relevant information including the amount of compounding fee charged, if any, will be recorded. The compounding fee will be charged on the spot and since it is on record the amount will automatically reach the exchequer as well. In case the scheme is fully enforced it will generate additional revenue of at least Rs. 400 crores per annum.

33. It was suggested that more revenue from Motor Vehicle Tax can be generated through: (i) increasing the rates of taxes, (ii) increasing the number of vehicles, and (iii) stopping the leakages. Suggestions with regard to these are given below:

(i) As far as increasing the rate of taxes is concerned, it should be done rationally and only after proper discussion with all the stakeholders. The rates prevailing in adjoining states will also have to be taken into account as a major divergence would mean vehicles will tend to get registered in the adjoining state where rates are

lower. At present the rates in UP are generally adjusted to the rates prevailing in Delhi.

(ii) In order to increase the number of vehicles, the rates should be such that people get attracted. For instance, quarterly tax on passenger vehicles previously had eight slabs and they were appropriate. However, the when first four slabs were merged, many permits were got cancelled and the state exchequer was the looser. In fact, many of the carriers continued plying without permits on the same routes where they were operating and were paying tax on the basis of old slabs.

(iii) For controlling the leakages, it was highlighted that compounding fee was one major area where adequate measures have to be taken. For this purpose computerization of the proposed 18 check posts must be completed at the earliest and followed by computerization of remaining check posts as well.

34. For the past five years there has been a move to provide computers to the transport office at the district level. However, this has been done in only 12 offices out of 70 offices in the state so far. Once computerization is achieved then there will be proper records of all vehicles, their owners, the amount and the time of the year when it has to pay tax and whether or not tax has been paid on time. This will put an end to tax evasion and the revenue of the department will go up many folds. At present this information is maintained in a highly unsystematic manner in registers and there is no proper way to check the defaulters and bring them to the book. The only way is through surprise checks. However, the staff is limited and there are also possibilities of collusion by the staff. Computerization will put a check on such malpractices. The task of computerization of all transport offices and development of required software for the department may be given to some profession company. The ultimate gain to the department will far outweigh the expenditure on computerization.

35. It was pointed out that the tax collected by the UPSRTC is not being paid to the Transport Commissioner's Office. A backlog of Rs. 623 crores has accumulated on this account. The annual loss to the exchequer is around Rs. 100 crore.

36. Officials pointed out that the UPSRTC has a monopoly on all the routes, yet is not making profits. Private buses are running on only few routes. The UPSRTC may be asked to cover the rural areas and a few urban areas. On the remaining routes permits may be given to the private sector. This will improve the earnings of the department through passenger tax and also ensure more services to the passengers. Initially permits may be given on a few selected routes for one year to begin with. After one year the tax receipts

received from these routes may be worked out and compared with the receipts which were available when the UPSRTC was plying on these routes. In case the revenue earned is much higher under the new arrangement the scheme may be taken up on more routes.

Views of Owners Of Transport Companies, Buses and Taxis

37. The owners of the transport companies expressed the view that the structure of taxes existing in the state is not very much different as compared to the adjoining states. They felt that the rates of taxes are not unduly high. They also pointed out that schemes such as Golden Token scheme and the Self Declaration Scheme were very useful and had made the functioning smooth. However, the schemes were withdrawn. Once again the RTO's have started their own token scheme and they keep charging rates according to their convenience and looking at the needs of the transporter. Thus sizeable revenue is not even reaching the government although it is being realized.

38. The truck owners accepted that many times they do carry excess goods but agreed that whenever an overloaded truck is caught it should be fined, the excess baggage be off loaded and the truck should be allowed to leave the check post after removing the excess weight. This will serve as a lesson not only for the transport companies to ensure that trucks are not overloaded but will also send a signal to those whose goods are being transported that it is more profitable to keep on the right side of the law rather than try to ignore it. Whenever an overloaded truck is caught the driver faces the brunt of the beating while the owner of the transport company bears the financial cost. But the person whose goods are being transported gets away without any penalty.

39. The owners of the transport companies expressed the view that just as there are check posts where their trucks are stopped for verification of proper permit, overloading etc, there should be suitable posts where they should be able to record their grievances if the officials from the RTO or police are harassing them un-necessarily.

40. The bus owners as well as the maxi cab and taxi owners also expressed the view that they are satisfied with the rates of taxes and fees, but expressed deep concern over the harassment which they are faced with in their day to day functioning. The bus owners complained that although the rules have been relaxed they are not always provided permits for the routes which they have requested for. It was pointed out that while a large number of buses are plying on various routes with regular permits, there are many buses which have no permit but are plying on the regular basis in connivance with the officials. They were also critical of the fact that while in the original policy eight different

tax slabs had been fixed for the grant of permits to buses depending on the kilometerage covered by them, the first four slabs have been merged into one group and the tax rate applicable for the fourth slab are now to be paid by those who were in the first three slabs earlier. This is a big financial loss and the rates are much higher than what they should have been. This has forced a number of bus owners to cancel their permits and many of them are compelled to run their vehicles illegally without a proper permit. They strongly feel that the old slabs should be restored as soon as possible as it will be beneficial not only for the bus owners but even for the government as well.

41. The taxi and maxi-cab operators have admitted that they are taking more passengers than what is allowed because this is the only way they can manage to survive. Even in the case of taxis, maxi-cabs and tempos they have pointed out that a large number do not have regular permits. They feel that there should be greater strictness so that only those vehicles should be allowed which have proper valid permit.

Recommendations:

42. In the light of the above analysis following recommendations are made for restructuring the taxation of motor vehicles in U.P. with a view to make it rational and revenue elastic:

1. While revising the tax structure care has to be taken to keep in mind the prevailing rates in the adjoining states. Otherwise it could actually lead to reduction in revenue because people living in districts in close proximity to the other states will prefer to get their vehicles registered in other states instead of U.P.
2. It is also pertinent to note that the receipts from motor vehicle tax as a percentage of total revenue from own taxes in U.P. was only 4.87% 2002-03, which was much lower than the all India average of 5.78 per cent. In fact, it was even less than some of its adjoining states such as Delhi, Madhya Pradesh and Rajasthan. Per capita incidence of motor vehicles taxes in U.P. is also lowest among the states. Thus, there is a good scope for upward revision of the tax structure.
3. The rates of the one time Motor Vehicle Tax at the time of registration should be fixed on advalorem basis in case of two wheelers also as being done in case of cars. It may be fixed at 3 percent of the cost of the vehicle with a minimum of Rs. 1000 in the case of mopeds and 4 percent of the cost of vehicles with minimum of Rs. 2000 for scooters and motorcycles. By keeping the rates on advalorem basis, the revenue from this tax will automatically go up with the increase in the price of vehicles.

4. The existing rates of road tax in the case of cars/jeeps are already fixed on the ad valorem basis. The rates vary for petrol and diesel driven vehicles. The existing rates of 2.5 percent of the cost of vehicle may be increased to 4 percent and the practice of keeping differential rates for petrol and diesel driven vehicles may be done away with in view of the fact that gap between the price of petrol and diesel is narrowing down as also the higher cost of diesel driven vehicle will automatically give more revenue at the same rate. Further, in recent years a wide range of luxury cars have come in the market, which are being bought by the rich class, which can afford to pay higher taxes. Therefore, for all vehicles with a price tag of Rs. 10 lakh and above the rate of road tax may be fixed at 5 percent of the price of vehicles.
5. Efforts must be taken to stop the leakages in revenue due to various malpractices. A cost effective way to do so is to computerize all the 70 district transport offices and link them with the central office. This will ensure that proper and updated records are maintained for all vehicles, which are registered in the state. Once this is done, it will be very easy to keep an eye on the defaulters and ensure that taxes are realized regularly and the amount is deposited in the state treasury.
6. It is equally important that check posts be made electronic as is proposed in the case of 18 main check posts. This will ensure that there will be proper verification of trucks, buses or taxis that pass through the check posts to check whether they have a regular permit, have paid their taxes and are not overloaded with goods or with passengers. All penalties will be collected at the check post itself and computerize. This way the leakages will be automatically plugged.
7. One easy way which is often used to evade tax is by declaring a vehicle as under non-use. The department will have to keep a proper check on such cases. Computerization of record will again be helpful to verify whether the vehicle under non-use is plying on the road or not.
8. In the case of additional motor vehicle tax (passenger tax) on the passenger buses, the merger of the first four slabs has proved to be a mistake and has caused significant revenue losses. It is, therefore, recommended that the transport department must revert back to its old format of having eight slabs. The rates on slabs may be raised by 15 percent over the previous rates.
9. The tax component in the passenger fares, which is being collected by the UPSRTC is not being paid to the government. Consequently, the backlog of arrears has

mounted to more than Rs 600 crores. After discussing this issue with the officials of the transport department and UPSRTC, we have come to the conclusion that UPSRTC should start paying current tax to the government and arrears of old tax should be converted into equity of the UPSRTC. We also recommend that a substantial part of current tax received by the government should be given back to UPSRTC as plan outlay for purchase of new buses and improvement of various other facilities.

10. It is recommended that a certain percentage of the income from compounding fees should be given back to the Transport Department in the shape of plan outlay for its development activities.

11. As per government orders, various facilities and concessions are provided to certain category of persons by the UPSRTC and their cost is later on reimbursed by the government. Keeping in view the resource constraints of UPSRTC, we recommend that 50 percent of the anticipated cost of such claims should be given to the UPSRTC in advance during the year.

12. The rates of additional motor vehicle tax (goods tax) were fixed long back and have not been revised since then. The department should make suitable increase in its rates at the earliest.

13. In the scenario where globalization and privatization is the order of the day, it may be an appropriate time to open the routes that have so far been the monopoly of the UPSRTC to private sector. The era of free permits has already been in force. Therefore, it may be appropriate to allow private buses to ply on all the routes. The tax component of the fare will be much easier to collect from them. The check posts are already there and once they become electronic they will keep a check on the actual number of passenger. So the possibility of leakages will be minimized considerably. To begin with it may be appropriate to introduce privatization in few selected routes only for say a period of one year. At the end of the year the revenue generated through passenger tax on privatized routes may be compared with the figure of revenue generated when the routes was opened to UPSRTC only. If it is found, as is likely to be the case, that private operators are providing larger revenue to the state then the other routes can also be opened to public.

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BACKGROUND PAPER
ON
TAX ON LUXURIES IN HOTELS

Prepared for

The Commission on Resources and Expenditure,
Government of Uttar Pradesh

By

A.K. Singh
&
A. Joshi

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GIRI INSTITUTE OF DEVELOPMENT STUDIES
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TAX ON LUXURIES IN HOTELS

Introduction

1. This tax is being levied in Uttar Pradesh under the U.P. Taxation and Land Revenue Laws Act, 1975. The act came into effect from August 1, 1975. Luxury tax is charged and collected from every person in respect of the luxury like AC, TV, etc. provided to him in a hotel. Although the incidence of the tax is on the person who is provided with lodging accommodation, the proprietor of the hotel is made liable to collect the tax and pay it to the government. The tax is administered by the Tourism Department at the State level.

2. Since 1984-85 the power of collection and refund of Tax on Luxuries in hotels has been given to the regional offices of the Tourism department. The State Government vide its notification dated December 27, 1988, has empowered the Regional Offices of the Tourism department to make assessment of the tax in addition to the power of collection and refund of this tax.

Rate Structure of Tax

3. Initially luxury tax was payable by every person who occupied a room or suite of rooms provided with luxuries in a hotel carrying a rent of Rs.50 or more per day. The rates were as follows:

(i)	If rent does not exceed Rs.100 per day	3 per cent of the rent
(ii)	If rent exceeds Rs.100 but does exceed Rs.150 per day	5 per cent of the rent
(iii)	If rent exceeds Rs.150 per day	7 per cent of the rent

4. The rates were revised vide notification dated October 12, 1994. According to the new notification tax on luxuries in hotels was payable on a room or a suite of rooms carrying a rent of Rs. 250 or more per day at a flat rate of 5 percent of room rent. Moreover, if the payment was made in foreign currency then there was a provision of 25 percent rebate on the tax.

5. *The UP Resource Mobilization and Taxation Reforms Committee Report 1996* recommended that as the tax is being levied on rooms with a rent of Rs. 250 or more per day, the rate of tax may be revised to 10 percent. It also recommended that there is a need to tighten the tax administration to ensure better collection. The committee had felt that given the growth of hotels in the state collection was rather low. The Committee also recommended that the revenue collected from this source should be utilized for the development of tourism in the state. However, the recommendation of the committee did not find favour with the government.

6. The Luxury Tax Act was amended in 1999. The Act defined various concepts such as hotels, luxuries, rent, etc. as follows:

(i) "Hotels" includes an accommodation unit wherein rooms are provided to customers on rent, but does not include the units approved under the 'Paying Guest Scheme' of the Department of Tourism of the Government of Uttar Pradesh;

(ii) "Luxuries" means such amenities as are provided in the hotel to the occupants of such rooms or suites therein as carry a rent of Rs 1000 or more per day;

(iii) "Rent" means the aggregate of all charges by whatever name called, actually received from the occupants of a room or suite in a hotel and includes charges for air conditioning, cooler, heater, geyser, television, radio, music, entertainment, extra bed or linen articles but does not include the charges for food or drinks or such other items, on the sale of which trade tax is payable under the Uttar Pradesh Trade Tax Act, 1948.

7. The rate was kept unchanged at 5 percent. The provision of 25 percent rebate on luxury tax if payment was being made in foreign currency was withdrawn. However, wherever the proprietor gives any kind of discount and realizes charges at the different rate than the published or declared rate of tariff for the rooms or suites, the tax was to be levied on the charges actually realized and not on the charges published or declared by the proprietor.

8. The amended Act of 1999 substantially reduced the coverage of the tax and linked it to the actual charges rather than listed charges. The rationale behind giving concession in the tax on luxuries in hotels was to promote tourism in the state.

9. A comparison of the tax structure on luxuries in hotels with other states would be instructive at this stage. Table 1 provides a comparative picture of the rate structure of luxury tax in selected states. It is evident from the table that the rate of tax is by far the lowest in Uttar Pradesh. There is a flat rate of 5 percent in U.P., whereas in most of the states the rate is 12 percent. These states continue to attract tourists from all over the country as well as from abroad all through the year even when there tax rates on luxuries in hotels are higher. Thus, it appears that the rate of tax does not affect the flow of tourists adversely. Even in a state like Rajasthan, which has such a high flow of tourists from all over the globe the tax rate is 8 percent. Most of the states are charging tax on the published hotel room charges.

10. Definition of the term hotels is also more comprehensive in other states. According to the Delhi Act term 'hotel' includes "a residential accommodation, a lodging house, an inn, a club, a resort, a farm house, a public house or a building or part of a building, where a residential accommodation is provided by way of business." This definition broadens substantially the tax

base. Even in the case of Uttar Pradesh people have started services such as lodges, inns, resorts, clubs, etc where residential accommodation is available on rent. These places offer all luxuries such as TV, refrigerators, AC, cooler, geyser etc. Their numbers are rising rapidly in and around the big towns and cities. Moreover, in the centers of religious tourism such as Mathura, Brindawan, Varanasi, etc., there are a number of '*Dharamshalas*' which are charging fairly high rates and also providing various luxuries as in the hotels. It will, therefore, be appropriate if the definition of hotel is suitably changed in the case of UP to broaden the tax base.

Table 1

Rate Structure of Luxury Tax on Hotels in Selected States, 2005

Sl. No.	States	Rate of Tax
1	Delhi	12.50 percent
2	Himachal Pradesh	12.00 percent
3	Karnataka	12.00 percent on rack rates
4	Madhya Pradesh	10.00 percent on published rates
5	Rajasthan	08.00 percent flat
6	Tamil Nadu	12.50 percent on published rates
7	Uttar Pradesh	05.00 percent on charged rate

Source: http://excise.delhigovt.nic.in
http://hotels.samsantravels.com
http://chennai.theparkhotels.com/chennai_room.html
www.himachaltourism.nic.in/hotluxtax/hotaxkhoj.asp
www.rajasthantourism.gov.in/ business/investnmet_hos2.htm
hotels.samsantravels.com/places/ mysore/quality_inn_southern_star.htm

Trends in Revenue

11. Table 2 provides information about the trends in the revenue received by the state from tax on luxuries in hotels. During 1984-85 total revenue receipts from this tax were barely Rs 61 lakhs. The receipts increased to Rs. 6.01 crores by the year 1996-97. The government did not approve the enhancement of rates in the tax on luxuries in hotels as suggested by the Bajaj Committee. Nor the Tourism Department made efforts to tighten its administration to ensure better collection. This is reflected in the fact that during 1997-98 and 1998-99 revenue collections from this tax went up only marginally. From July 1999 the amended Act came into force, which resulted in a sharp decline in the revenue collection to Rs. 4.33 crores during the

year 2002-03. However, things have improved since then reflecting an increased flow of tourism and higher occupancy of hotels. During 2004-05 the revenue collections were Rs 9.21 crores.

12. Due to the small tax base and low rates, tax on luxuries in hotels contributes a negligible proportion of the total revenue collected from the state from its own resources. In fact, the share has come down from 0.05 percent during 1984-85 to only 0.03 percent during 2002-03. These figures are indicative of the unexploited potential of the luxury tax in U.P.

Table 2

Revenue Receipts from Tax on Luxuries in Hotels

Year	Total revenue from State's Own Taxes (Rs Crores)	Revenue from Tax on Luxuries in Hotels (Rs Crores)	Share of Luxury Tax in Total Tax Revenue of the State (%)
1984-85	1140.41	0.61	0.05
1985-86	1291.41	0.93	0.07
1986-87	1528.60	1.55	0.10
1987-88	1988.66	1.68	0.08
1988-89	2065.74	2.28	0.11
1989-90	2448.58	2.55	0.10
1990-91	3162.12	3.35	0.11
1991-92	3497.38	3.54	0.10
1992-93	3886.34	4.04	0.10
1993-94	4132.00	4.53	0.11
1994-95	4878.31	4.24	0.09
1995-96	5468.92	4.49	0.08
1996-97	6305.97	6.01	0.10
1997-98	6997.94	6.30	0.09
1998-99	7910.11	6.70	0.08
1999-2000	9400.91	5.20	0.06
2000-2001	10980.00	4.97	0.05
2001-2002	10330.20	4.67	0.05
2002-2003	12178.20	4.33	0.04
2003-2004	14539.10*	6.59	0.05
2004-2005	16031.25*	9.21	0.05

Source: (i) Directorate of Tourism UP, Lucknow for Revenue from Tax on Luxuries in Hotels.

(ii) Vittiya Sankhyaki Pustika (1970-71 to 2002-03), Finance Department, Government of UP and Budget in Outline for total revenue from State's own tax.

Number of Hotels

13. According to the records of the Tourism Department there were 2233 hotels in Uttar Pradesh in 2002-03 with a capacity of 37538 rooms and 84950 beds. Out of these 71 hotels were

classified from one star to five star deluxe categories. Table 3 provides details of hotels on the region wise basis.

Table 3

Details of Hotels and Beds in UP, 2002-03

Region	Number of Hotels	Number of Beds
Agra	453	16713
Allahabad	109	4108
Bareilly	295	7261
Gorakhpur	148	6868
Faizabad	130	4544
Jhansi	110	4344
Lucknow	421	16007
Meerut	212	5948
Varanasi	345	19177
Total UP	2233	84950

Source: Directorate of Tourism UP, Lucknow.

14. It is a general fact easily observable to any one that the number of hotels in the state is rapidly multiplying especially in the larger cities. It looks that the Tourist Department is not able to register all the eligible hotels existing in the state. The situation reflects the small tax base for the luxury tax on the one hand and the inadequate efforts to register all eligible hotels by the Tourist Department.

15. It needs to be pointed out that of total 2233 hotels in the entire state there are only 71 hotels which have been given a rating starting from 1 star to 5 star deluxe categories. These hotels together have 4461 beds. Thus, the share of such hotels to the total hotels is barely 3 percent and they have a share of roughly 5 percent in the total beds available in all hotels of the state. It is mainly in these hotels that we are likely to find rooms with a daily rent of Rs. 1000 or more. Consequently we are leaving out over 95 percent hotels from the tax net.

Recommendations

16. On the basis of the analysis of the situation following recommendations are being made with respect to Luxury Tax on Hotels to make it a more buoyant source of revenue:

(1) There is a need to bring about a change in the very definition of 'hotels'. The definition used in the Delhi Act given earlier can be adopted with suitable modification by the state to broaden the tax base. *All types of premises where residential accommodation is provided as a business should be brought under the definition of hotels including clubs, resorts, dharamshalas, etc.*

(2) Even the small towns spread over the entire state have hotels where the rooms which carry a rental of around Rs. 250 per day offer luxuries such as TV, room cooler, geyser etc. Moreover, in the entire state we can easily identify the centers of tourist attraction. These centers attract tourists either from the religious point of view such as Varanasi, Allahabad, Faizabad, Chitrakoot etc. or have a historical significance such as Agra and Lucknow. A large number of people now visit the district headquarters or bigger town for purposes ranging from recreation, litigation, official work to business. Hence, the rationale of restricting tax on luxuries for rooms with a rent of Rs. 1000 or more to attract tourists does not seem appropriate. It is well known that a large number of rooms are occupied by individuals who are on an official visit or business trip and their hotel accommodation is reimbursed by the company if they are from the corporate sector or by the government in the case of the government employees. Thus for them the luxury tax does not mean any additional burden. *Therefore, it is recommended that tax on luxuries in hotels should be levied on all rooms with a rent of Rs. 250 per day as was the case prior to the amendment of 1999.* Any one who can afford to take a room in a hotel at the rate of Rs. 250 or more per day can surely afford to pay a luxury tax as well because even a 10 percent tax would only mean an additional Rs. 25 per day.

(3) Keeping in mind the tax structure in adjoining states and the need to mobilize more resources from this tax the following rate structure is recommended:

(i) If the room rent is below Rs. 250 per day	Nil
(ii) If the room rent is between Rs. 250 and Rs. 499	6 percent
(iii) If the room rent is between Rs. 500 and Rs. 999	8 percent
(iv) If the room rent exceeds Rs. 1000	10 percent

(4) In order to avoid any evasion tax should be charged on the printed prices and not on actual charges shown.

(5) A special drive should be launched by the Tourist Department in association with district administration to identify the premises which are giving rooms on rent.

(6) The Tourism Department of the state should ensure strict compliance of the Act and see to it that hotels are paying taxes in accordance with the actual occupancy. A random surveys and checks may be carried out to check actual occupancy and to estimate average occupancy per month, which may be used to determine the tax liability of the hotels.

(7) Since the contribution of the tax to the state exchequer is so far negligible, it would be appropriate to allow the Tourism department for providing better facilities to the tourists, particularly in the centers of tourist attraction in the state. This would also provide incentive to the department to ensure more effective compliance of the Act and raise more revenue.

Revenue Implication of the Suggested Measures

17. Through the implementation of rate structure suggested by us, the revenue receipts from this tax is likely to increase from the present level of around Rs. 9 crore per annum to almost Rs. 30 crore even at 2233 hotels reported by the tourism Department. Further by changing the definition of hotels as prescribed in Delhi Act, its revenue receipts are estimated to be doubled.

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Final Draft

BACKGROUND PAPER
ON
TAX ON MOTOR SPIRIT

Prepared for

The Commission on Resource and Expenditure
Government of Uttar Pradesh

By

A. K. Singh
&
A. Joshi

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GIRI INSTITUTE OF DEVELOPMENT STUDIES
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TAX ON MOTOR SPIRIT AND DIESEL OIL

Introduction

1. The UP Sales of Motor Spirit Taxation Act was enacted in 1939 and was made effective from June 10, 1939. The Act was first amended in 1961 to include diesel oil and then again in 1974 in order to include industrial alcohol as well. The amended Act is now called "UP Sales of Motor Spirit, Diesel Oil and Alcohol Taxation Act 1939".

2. The Act provides for the taxation of motor spirit and diesel oil at the first point of sale in the state. The tax was initially collected by the Excise department. Consequently, it was the Excise Commissioner and his staff which was looking after the administration of the Act. The staff of the Excise Department was given the responsibility to inspect oil depots, petrol/diesel pumps and other retail selling points. *The UP Resource Mobilization and Taxation Reform Committee, 1996* observed that although the tax is being levied on sale of motor spirit and diesel oil, it is being administered by the Excise Department, which is not giving it due attention. The Committee, therefore, recommended that the administration and monitoring of the tax should be transferred to the Trade Tax Department. As a result the tax is now under the administration of Trade Tax Department since 2000.

Rate Structure

3. The rates of sales tax on motor spirit and diesel oil have been changed several times as depicted in Table 1. Initially the tax was only on petrol and was levied at the rate of 2 annas per gallon or 2.7 paise per litre. From 1954 the rate was increased to 7 paise per litre. After the amendment of 1961 diesel was also included and the rate of tax on diesel oil was 5 paise per litre while rate of tax on petrol was unchanged. By 1974 the rates had gone up to 25 paise per litre on petrol while the corresponding rate in case of diesel oil was 10 paise per litre. This rate remained in vogue till January 7, 1974. On the recommendations of the *UP Taxation Enquiry Committee, 1974,* the State Government converted the specific tax into an ad valorem levy. The tax rate was fixed at 8 percent ad valorem both on petrol and diesel with effect from January 8, 1974. From April 28, 1978 the rate of tax on diesel oil was increased to 12 percent whereas the rate for petrol remained unchanged. The rate of tax on petrol was revised from December 1, 1985 to 10

percent. The rate of tax on both petrol and diesel oil were increased to 14 percent for petrol and 16 percent for diesel oil with effect from April 23, 1994.

4. Presently, the sales tax is being charged at the rate of 25 percent ad valorem in the case of petrol with an additional 1 percent as development tax. The sales tax on diesel oil is 21 percent ad valorem with an additional 1 percent development tax.

5. During the period from April 1978 to 1994 the tax was higher on diesel oil and relatively lower on petrol. However, now the tax rate is kept lower on diesel as compared to petrol. This may be justified on the ground that diesel is being used extensively in agriculture for providing irrigation through diesel operated pump sets as well as operating and the movement of passengers as well as goods transport too is quite heavily dependent on buses and trucks which run on diesel. A high tax on diesel has, thus, ramifications for the overall price level in the economy.

Table 1

Rate Structure of Sales Tax on Motor Spirit in UP

Rate effective from	Rate of tax	
	Petrol	Diesel Oil
Initially	2 annas per gallon or 2.7 paise per litre	
1.4.1954	7 paise/litre	
1961	7 paise/litre	5 paise/litre
1.12.1962	7 paise/litre	7 paise/litre
1.3.1965	9 paise/litre	7 paise/litre
1.10.1969	10 paise/litre	7 paise/litre
2.5.1974	25 paise/litre	10 paise/litre
8.1.1978	8 percent	8 percent
28.4.1978	8 percent	12 percent
1.12.1985	10 percent	12 percent
23.4.1994	14 percent	16 percent
3-7-1998	20 per cent	20 percent
As on July 29, 2005	25 percent + 1 percent Development Tax	21 percent + 1 percent Development Tax

Source: Excise Commissioner, Uttar Pradesh up to 23.04.1994
Trade Tax Department, Uttar Pradesh for 2005.

Consumption of Motor Spirit and Diesel Oil

6. Table 2 provides trends in the consumption of petrol and diesel oil in Uttar Pradesh since 1981-82. There has been a steady increasing trend in the consumption of petrol in the state since 1981-82 till 2002-03. Consumption has risen almost five fold during this period-from 122 thousand tonnes in 1981-82 to 634 thousand tonnes in 2002-03. The consumption within the state was around 8.38 percent of the total petrol consumption in India as whole.

7. In the case of high speed diesel, it is observed that the annual consumption figures had registered a fourfold increase-from 1201 thousand tonnes in 1981-82 to 4856 thousand tonnes in 1999-2000. However, consumption then declined over the next two years and stood at 4073 thousand tonnes during 2001-02 and then increased to 4235 thousand tones in the very next year. U.P. accounted for around 11.56 percent of the consumption of high speed diesel oil in the country as a whole.

8. Large fluctuations are found in the consumption of light diesel oil over the years. The total consumption was 109 thousand tones during 1981-82. The maximum figures of consumption were attained during 1999-00 and 2000-01 when total consumption touched all time high figures of 167 and 169 thousand tonnes respectively. Consumption of light diesel oil came down to 103 thousand tonnes during 2002-03. Total consumption during 2002-03 in UP was around 5 percent of the total light speed diesel consumption in the entire country.

Table 2

Consumption of Motor Spirit and Diesel Oil in UP

Item	1981-82	1989-90	1991-92	1992-93	1999-2000	2000-01	2001-02	2002-03	UP as a % of All India Consumption (2002-03)
Motor Spirit	122	325	345	340	493	585	567	634	8.38
High Speed Diesel	1201	2543	2979	3187	4856	4632	4073	4235	11.56
Light Diesel Oil	109	134	145	119	167	169	132	103	4.99

Source: (i) RBI, Basic Statistics Relating to Indian Economy (up to 1992-93)
(ii) Economic Intelligence Services (CMIE), Energy Report, May 2005 for the year 1999-2000 upto 2002-03

Trends in Revenue

9. Table 3 shows the trends in revenue from sales tax on motor spirit and diesel oil in the state and its share in total revenue from the state's own taxes as well as in the NSDP of the state. The table highlights the fact that revenue from sales tax on motor spirit has been increasing progressively over the years. During 1990-91 the revenue was a meager Rs. 213 crore. By the year 2002-03 the revenue figure had risen to Rs.1817 crores and expected to reach at level of Rs.2177 crores by the end of 2004-05 As a result of this increase in revenue from sales tax on motor spirit the share of this tax in the total revenue of the state from its own taxes has also seen a corresponding increase. During 1990-91 the share was barely 6.70 percent. By 2003-04 it had gone up to 14.62 percent. This increase can be attributed to factors like increase in the number of motor vehicles, increase in the number of tube-wells and pumping sets, upward revision of prices of petrol and diesel oil as well as the changes in the rate of the sales tax on motor spirit. As a result of the increases in revenue the share of tax in the Net State Domestic Product too has increased from 0.43 percent during 1990-91 to 1.05 percent during 2003-04. Similarly, per capita incidence of the tax has gone up considerably from Rs.15.38 during 1990-91 to Rs. 111.19 in the year 2003-04.

Table 3

Trend in Revenue from Sales Tax on Motor Spirit in UP

Year	Total Revenue from States Own Taxes (Rs. Lakhs)	Total Revenue from Sales Tax on Motor Spirit (Rs. Lakhs)	NSDP at Current Prices (Rs. Lakhs)	Share of tax on Motor Spirit in Total Tax of the State (%)	Share of Tax in NSDP (%)	Per Capita Incidence of the Tax (Rs)
1	2	3	4	5	6	7
1990-91	316212	21197	4949600	6.70	0.43	15.38
1995-96	546892	55851	9281100	10.21	0.60	36.00
2000-01	1098000	174708*	15067600	15.91	1.16	106.23
2001-02	1031932	160039*	15685400	15.51	1.02	95.09
2002-03	1276690	181746*	16947900	13.45	1.07	103.69
2003-04	1360122 (RE)	198847*	18959800	14.62	1.05	111.17
2004-05	1567510 (BE)	217700*	23092900	13.89	0.94	119.37

Source: (1) Starred figures in col. 3 are departmental, which have been taken due to misclassification in the budget.

(2) For col.2 and col.3 (1990.91 and 1995-96) – U.P. Budget documents

(3) For col.4 (NSDP Figures) – Economics & Statistics Department. NSDP figures pertain to old series (base 1980-81) for the year 1990-91 and New Series (base 1993-94) for the years 1995-96 onwards.

Recommendation

10. While considering the revision in the tax on motor spirits and diesel oil one has to keep in mind a number of considerations. Firstly, as the prices of petrol and diesel oil go up, it automatically results in increase in revenue since the rate of tax is ad valorem. Moreover, revenue from this tax has also been increasing as a result of the increasing trend in consumption of petrol and diesel oil.

11. Secondly, we have to consider the impact of an increase in the tax on the overall economy and the prices. It is well known that a large number of private pump sets used for irrigation by cultivators are diesel driven as also are the tractors. Moreover, after the railways the road transport network is the next most important source of movement of both passengers and goods. Therefore, if the rate of tax is increased further, it would increase the cost of the agricultural operations as well as the cost of raw materials and finished products which are transported through trucks.

12. Thirdly, one has to compare the tax rates in U.P. with the rates prevalent in the other states as an increase in the tax rate can lead to shift of purchase of petroleum and diesel to neighbouring states, especially in case of districts lying on the border. At present the rate of tax is 26 percent in the case of petrol and 22 percent for diesel including the development charge. In the neighbouring northern states like Haryana, Delhi, Punjab and Himachal Pradesh, the rates are much lower, generally around 12 per cent. Delhi Government proposed to increase the tax on diesel from 12 per cent to 20 percent in 2003-04 budget. But it is having second thoughts about the increase. In some western and southern states, however, the tax rates are higher. In Maharashtra the rate is around 38 per cent. Kerala similarly has very high rates of taxes on motor spirits and diesel - 34 per cent on high speed diesel oil, and 44 per cent on motor spirits.

13. In view of the above and the facts that the present rates of the tax in Uttar Pradesh are already higher than the rates prevaling in the neighbouring States and are ad valorem, it is felt that tax rates need not be revised upwards.

Background Paper on

PURCHASE TAX ON SUGARCANE

Prepared for

The Commission on Resources and Expenditure
Government of Uttar Pradesh

By

R.C. Tyagi

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Giri Institute of Development Studies
Sector O, Aliganj Extension Scheme
Luckbnow-226024

PURCHASE TAX ON SUGARCANE

Status of Sugarcane and Sugar Industry in U.P.

Uttar Pradesh is the biggest sugarcane producing state having highest area under this crop. The state accounts for nearly 50 per cent of the total area under sugarcane crop in the country and over 40 per cent of the total sugarcane produced in the country. Although the area and production of sugarcane increased in U.P. has been going up during the plan period, the percentage share of U.P. in production and area under sugarcane has been declining as can be seen from Table 1. Other states of the country like Maharastha, Andhra Pradesh, Tamil Nadu and Karnataka on the other have been rapidly increasing their share in production and area under this crop.

Sugar Industry is one among the largest organised agro-based industries, next only to textile, which plays an eminent role in the Indian economy. This is even more true for U.P. where the economy is dominated by agriculture. The cost of sugarcane accounts for about 70 per cent of the total cost of sugar production. It is therefore, necessary that adequate quantity and high quality of sugarcane is made available to mills on a regular basis

Production of sugarcane has steadily increased in U.P. till the mid –nineties but has shown a fluctuating trend since than (Table 2). The share of sugarcane crushed by sugar mills of the state has gone up from 31.2 per cent of the total cane produced in the state in 1994-95 to 36.6 per cent in the year 2003-04. On the other hand, the share of khandsari units of the state in cane crushed had declined from 11.8 per cent to 5.2 per cent during the same period. Thus, less than half of the cane produced in the state is crushed by the sugar mills and khandsari units and rest is used for other purposes like seed. chewing and gas making.

Table-1: Area, Production and Yield of Sugarcane (All India and U.P.)

Year/Season	All India			Uttar Pradesh		
	Area ('000 ha.)	Production ('000 tons)	Yield (Per ha. tons)	Area ('000 ha.)	Production ('000 tons)	Yield (Per ha. tons)
1950-51	1707	69920	41.0	1014 (54.40)	40030 (57.25)	39.5
1960-61	2514	110544	45.08	1329 (52.86)	54516 (49.32)	41.0
1970-71	2617	126368	48.3	1345 (51.39)	54672 (43.26)	41.0
1980-81	2667	154247	57.8	1363 (51.11)	64205 (41.62)	47.1
1990-91	3686	241045	65.4	1856 (50.35)	103562 (42.96)	56.0
1991-92	3844	253995	66.1	1933 (50.29)	111098 (43.74)	57.5
1992-93	3572	228033	63.8	1858 (52.02)	102929 (45.14)	55.4
1993-94	3422	229659	67.1	1761 (51.46)	104082 (45.32)	59.1
1994-95	3867	275540	71.3	1839 (47.56)	110239 (40.01)	60.0
1995-96	4147	281099	67.8	1974 (47.60)	119830 (42.63)	61.0
1996-97	4174	277560	66.5	2111 (50.07)	125348 (45.16)	59.4
1997-98	3930	279541	71.7	1985 (50.51)	129267 (46.24)	65.1
1998-99	4055	288722	71.2	1974 (48.68)	116483 (40.34)	59.0
1999-00	4225	299227	70.8	2011 (47.60)	115419 (38.57)	57.4

Source: Indian Sugar Year Book (1984-85 to 2000-01), ISMA, New Delhi.
Note: Figures in bracket indicate percentage in relation to the country.

Table-2: Production and Utilization of Sugarcane in U.P.

(Lakh Tonnes)

S.No.	Year	Sugarcane Produced	Sugarcane Crushed		Total (3+4)	Sugarcane used by others(2-5)
			Sugar mill	Khandsari Units		
	1	2	3	4	5	6
1.	1984-85	678.05	154.48(22.8)	82.88(12.2)	237.36(35.0)	440.69(65.0)
2.	1989-90	1016.86	332.98(32.7)	112.95(11.1)	445.93(43.8)	570.93(56.2)
3.	1994-95	1228.39	383.30(31.2)	144.97(11.8)	528.27(43.0)	700.12(57.0)
4.	1995-96	1437.12	502.50(35.0)	128.72(9.0)	631.22(44.0)	805.90(56.0)
5.	1996-97	1480.86	436.30(29.5)	135.20(9.1)	571.50(38.6)	909.36(61.4)
6.	1997-98	1334.21	409.06(30.7)	105.49(7.9)	514.55(38.6)	819.66(61.4)
7.	1998-99	1217.36	412.70(33.9)	102.30(8.4)	515.00(42.3)	702.36(57.7)
8.	1999-00	1232.40	487.87(39.6)	90.33(7.3)	584.20(47.4)	648.20(52.6)
9.	2000-01	1117.38	451.37(40.4)	74.25(6.6)	525.62(47.0)	591.76(53.0)
10.	2001-02	1244.91	552.08(44.3)	85.76(6.9)	637.84(51.2)	607.07(48.8)
11.	2002-03	1345.29	592.71(44.1)	82.38(6.1)	675.09(50.2)	670.20(49.87)
12.	2003-04	1266.51	463.52(36.6)	66.24(5.2)	529.76(41.8)	736.75(58.2)

Note: Figures in bracket indicate percentage to total sugarcane produced.
Source : Compiled from Cane Commissioner Office, Lucknow.

The sugar mills of the state have grown gradually over the years. There were 68 units in 1950-51, 71 units in 1960-61, 74 units in 1973-74, 90 units in 1980-81 and 101 units were in 1985-86. The number of sugar mills increased to 112 in 1994-95 and 120 in the year 2003-04.

Cane crushed by sugar mills of U.P. was 1,721.72 lakh quintals in the year 1985-86, which went up to 3,831.26 lakh quintals in 1994-95 and further to 4,635.20 lakh quintals in the year 2003-04, that is, by nearly two and half times. However, there have been year to year fluctuations in the volume of cane crushed.

Table 3: **Total Number of Sugar Factories, Cane Crushed and Sugar Produced in Uttar Pradesh**

Year	Number of Sugar Factories	Sugarcane Crushed (Lakh Quintals)	Sugar Produced (Lakh Quintals)
1984-85	99	1544.85	147.80
1985-86	101	1721.72	165.00
1986-87	102	2710.95	255.70
1987-88	104	2996.45	266.55
1988-89	104	2429.28	230.20
1989-90	105	3328.84	300.82
1990-91	105	3275.61	297.50
1991-92	106	3975.54	365.40
1992-93	108	2957.81	285.70
1993-94	110	2898.86	271.50
1994-95	112	3831.26	360.90
1995-96	117	5025.03	437.90
1996-97	119	4363.00	408.30
1997-98	122	4090.64	392.20
1998-99	125	4127.02	372.90
1999-00	128	4878.76	455.50
2000-01	119	4513.67	439.40
2001-02	119	5520.86	527.50(P)
2002-03	119	5927.10	560.10(P)
2003-04	120	4635.20	480.10(P)

(P) = Projected.
Source: Various volumes of Sugar Year Book, ISMA, New Delhi.

So far as the sugar production is concerned, the figures exhibit an increasing trend, though there were year to year fluctuations. In 1985-86 a total of 165.00 lakh quintals of sugar was produced by the U.P. Sugar factories. Sugar produced by sugar mills in the state went upto 360.90 lakh quintals in 1994-95 and further to 480.10 lakh tonnes in the year 2003-04 (Table 3). Thus, there has been an overall increasing trend in

sugar production in U.P., but, like other agro-industries, this industry has been subject to wide and sometimes violent fluctuations.

Table-4 shows the total number of working khandsari units, cane crushed and khandsari produced by them from the year 1984-85 to 2003-04. It is quite interesting to note that despite the fact that the total number of working khandsari units declined to one third, i.e. from 1808 in 1984-85 to 531 in 2003-04 and cane crushed by them also declined from 82.88 lakh tonnes to 66.24 lakh tonnes during the same period, but production of khandsari increased from 39.00 lakh quintals to 46.50 lakh quintals. This suggests that the units which have survived are more efficient units. They have increased their crushing capacity by increasing the total daily crushing time and by increasing the size and number of crushers.

Table 4: **Total Number of Working Khandsari Units, Cane Crushed and Khandsari Produced in U.P.**

Year	Number of Working Khandsari Units	Sugarcane Crushed (Lakh Quintals)	Khandsari Produced (Lakh Quintals)
1984-85	1808	82.88	39.00
1985-86	1744	102.13	48.09
1986-87	1767	128.32	66.35
1987-88	1666	125.45	53.05
1988-89	1600	119.93	51.04
1989-90	1552	112.95	51.25
1990-91	1439	133.51	53.87
1991-92	1307	143.94	65.19
1992-93	1181	122.48	52.87
1993-94	1211	140.76	57.79
1994-95	1191	144.97	64.31
1995-96	1082	128.72	57.21
1996-97	1040	135.20	60.31
1997-98	1017	105.49	43.40
1998-99	988	102.30	39.85
1999-00	888	90.33	32.20
2000-01	672	74.25	43.40
2001-02	624	85.76	41.90
2002-03	564	82.38	46.20

2003-04	531	66.24	46.50

Source: Cane Commissioner Office, Lucknow

Table-5 shows the comparative position of some of the major states with regard to sugarcane acreage, sugarcane production, yield per hectare, number of sugar factories, cane crushed and sugar produced.

Table 5: **Sugarcane Acreage, Cane Production and Yield Per Hectare Of Some Major States**

Item	State	1989-90	1994-95	1999-2000
1. Sugarcane Acreage ('000 hect)	1. Andhra Pradesh	158	209	231
	2. Gujarat	106	155	201
	3. Karnataka	265	345	361
	4. Maharashtra	383	518	590
	5. Tamil Nadu	233	327	335
	6. Bihar	125	123	97
	7. Punjab	103	83	108
	8. Uttar Pradesh	1761	1839	2011
2. Sugarcane Production ('000 Tonnes)	1. Andhra Pradesh	11134	16046	8668
	2. Gujarat	9160	10785	14066
	3. Karnataka	21210	33093	36505
	4. Maharashtra	34008	44260	53140
	5. Tamil Nadu	23619	36456	35353
	6. Bihar	6694	5663	4033
	7. Punjab	6500	5160	6770
	8. Uttar Pradesh	97422	110239	115419
3. Yield Per Hectare (Tonnes per Hect.)	1. Andhra Pradesh	70.5	76.7	80.6
	2. Gujarat	86.4	69.7	70.0
	3. Karnataka	80.1	95.9	101.1
	4. Maharashtra	88.8	85.5	77.0
	5. Tamil Nadu	101.2	111.2	105.5
	6. Bihar	53.7	46.0	41.7
	7. Punjab	63.1	62.2	62.7
	8. Uttar Pradesh	55.3	59.9	57.4
4. Number of Factories (Installed)	1. Andhra Pradesh	34	38	41
	2. Gujarat	17	18	22
	3. Karnataka	29	31	37
	4. Maharashtra	101	110	134
	5. Tamil Nadu	28	33	37
	6. Bihar	30	30	28
	7. Punjab	13	22	22
	8. Uttar Pradesh	104	112	128
5. Cane Crushed ('000 Tonnes)	1. Andhra Pradesh	5666	9290	11717
	2. Gujarat	6084	6512	10754
	3. Karnataka	7665	11892	14815
	4. Maharashtra	36618	45997	57099

	5. Tamil Nadu	9949	22125	19319
	6. Bihar	3720	4327	3994
	7. Punjab	3236	3505	4624
	8. Uttar Pradesh	33298	38311	48789
6. Sugar Produced ('000 Tonnes)	1. Andhra Pradesh	566	874	1182
	2. Gujarat	667	759	1141
	3. Karnataka	796	1226	1577
	4. Maharashtra	3923	5025	6503
	5. Tamil Nadu	925	1921	1768
	6. Bihar	334	394	368
	7. Punjab	295	319	421
	8. Uttar Pradesh	3008	3609	4555

Source : Various Volumes of Indian Sugar Year Book, ISMA, New Delhi.

Sugarcane acreage is highest in Uttar Pradesh (2011 thousand hectares) followed by Maharashtra (590 thousand hectares) and Karnataka (361 thousand hectares) in 1999-2000. Similarly Uttar Pradesh has highest cane production (115419 thousand tonnes followed by Maharashtra (53140 thousand tonnes) and Karnataka (36505 thousand tonnes). So far as the yield per hectare is concerned, Uttar Pradesh ranks seventh among eight states compared. Sugarcane yield in Uttar Pradesh is only 57.4 tonnes per hectare, whereas Tamil Nadu has a yield of 105.5 tonnes per hectare, followed by Karnataka 101 tonnes per hectare. Uttar Pradesh was having second highest number of sugar factories (128), just after the Maharashtra 134 in the year 1999-2000. Although, Uttar Pradesh has produced more than double sugarcane (115419 thousand tonnes) than Maharashtra (53140 thousand tonnes) in the year 1999-2000 but the production of sugar (4555 thousand tonnes) was less than that in Maharashtra (6503 thousand tonnes). The lower production of sugar in Uttar Pradesh seems to be due to the inferior cane quality, old machineries of the sugar factories and lesser cane crushed by U.P. Sugar Factories. So far as the cane crushed is concerned, Uttar Pradesh could crushed only 26 per cent of the total sugarcane produced in the State whereas 88 per cent of the total sugarcane produced was crushed in Maharashtra. However, Uttar Pradesh has a great potential to improve its share in sugar production. This would only be possible by resolving the problems prevailing in sugar manufacturing sector (Sugar Mills/Khandsari Units) and by improving their crushing capacity. For this liberalization in licensing policy to install new sugar mills as well as efficient khandsari units is required. Also, good quality of sugarcane and regular supply should be ensured to this sector.

Purchase Tax on Sugarcane

Legal Position: Sugar industry at present is subject to few taxes at the hands of both the central and state governments. The central government levies Excise Duty while state governments can levy a purchase tax on cane purchased by sugar mills and khandsari units. Purchase tax on sugarcane is levied under the U.P. Sugarcane (Purchase Tax) Act, 1961. As per provisions of the Act the tax is collected from the owners of the sugar mills/khandsari units on the purchase of sugarcane. The rates of tax are prescribed by rules made their under. The burden of Purchase Tax is squarely on sugar mills and khandsari units purchaising sugarcane for crushing and not on sugarcane growers. The tax is not directly collected at the time of purchase of sugarcane by sugar mills but at the time of release of sugar from the sugar mills. In case of khandsari units, the tax is charged on the basis of sugarcane purchased but there is a compounding scheme also based on the size of the unit, i.e., the capacity of crusher and cane crushed by them.

Before the beginning of each crushing season, the assessing authority works out and specifies the provisional rate of payment to be made per bag of sugar by correlating the quantity of sugarcane purchased for the factory to the sugar produced in the factory during the last crushing season in which the factory was under production. At the end of the season, the assessing authority again works out and specifies the revised rate of payment per bag of sugar by taking into account the quantity of sugarcane purchased by the sugar factory and sugar produced in the factory during the current crushing season. Whenever the rate is reduced or increased, the excess payment or shortfall is spread over the remaining stock of sugar and the amount to be paid before removal of each such remaining bag of sugar is re-fixed accordingly.

In case of co-operative sugar factories, there is a deferment of purchase tax scheme also where the mills take loan from Industrial Development Bank of India (IDBI). In fact, the deferment is part of the IDBI loan agreement. In this scheme, the deferred tax is to be paid by the sugar factory after the expiry of the said period.

Rate of Taxation: The rate of purchase tax can be fixed under Section 3 of U.P. Sugarcane (Purchase Tax) Act, 1961. Under the present provision of the said Act, the State Government can fix the tax upto 10 per cent of the cane price fixed by the Government of India. The present rates of purchase tax are Rs.2/- per quintal for sugar

mills and Rs.1.50 per quintal for khandsari units. The rate of purchase tax for khandsari unit has not been changed since October 7, 1989. In case of sugar factories the rate was revised from Rs.1.75 to Rs.3.00 per quintal on November 8, 1994, but was reduced to Rs.2.0 per quintal on November 26, 1994. Since then, the rate of purchase tax have remained unchanged at Rs.2.00 per quintal for sugar factories and Rs.1.50 per quintal for khandsari units in U.P.

The comparative position of purchase tax rate, in different states since 1993-94 to 1997-98 is shown in Table-6. As will be seen that the tax rates in U.P. are the lowest among all the major sugarcane producing states except Haryana.

Table 6: **State-wise Rate of Cess/Purchase Tax on Sugarcane paid by Sugar Factories**

(in Rs. per tonne of cane)

State	1993-94	1994-95	1995-96	1996-97	1997-98
Andhra Pradesh	22.00	90.00	90.00	60.00 + 1% on value of cane	60.00 + 1% on value of cane
Bihar	10.00 as cess + 9.9% on value of cane as purchase tax + 1% as Mkt. fee	10.00 as cess + 2.2% on value of cane as purchase tax + 1% as Mkt. fee	10.00 as cess + 1% on value of cane as Market fee 9.90% on value fee	10.00 + 1% on value of cane as Mkt. fee + 2.2% on value of cane as purchase tax	10.00 + 1% on value of cane as Mkt. fee + 2.2% on value of cane as purchase tax
Gujarat	24.00	24.00	24.00	24.00	24.00
Haryana	15.00	15.00	15.00	15.00	15.00
Karnataka	7%+2.5% as turnover tax	7%+2.5% as turnover tax	(a) 65.00 for fact above 10.5 recovery, (b) 50.00 for fact. less than or upto 10.5% recovery	(a) 5.00 for fact. below 10.5% recovery & road cess, Rs.10.0 (b) 65.00 for fact. above 10.5 recovery & road cess Rs.10/-	(a) 5.00 for fact. below 10.5% recovery & road cess, Rs.10.0 (b) 65.00 for fact. above 10.5 recovery & road cess Rs.10/-
Kerala	6.6%	6.6%	6.6%	4.4%	4.4% on cane price
Madhya Pradesh	3.5%	3.5%+1% market tax	4.5%+1% market tax	4.9%+ 1% mandi tax	4.9%+1% mandi tax
Maharashtra	22.00 upto 31.3.94	25.00 (25.00 from 31.3.94)	25.00	3% on value of cane	3% on value of cane
Punjab	8.8%+5.00 cess	8.8%+5.00 cess	8.8%+5.00 cess + 10% surcharge	2.2% + 5.00 cess	2.2% + 5.00 cess
Tamil Nadu	15.15%+5.00 as cess surcharge	5.00 cess & 15.15% + surcharge	5.00 Cess 11% purchase tax, 2.5% additional	5.00 cess + 60.00 purchase tax	5.00 cess + 60.00 purchase tax

			sale tax, 1.65% surcharge		
Uttar Pradesh	17.50	20.0	20.0	20.0	20.00

Note: No cess/purchase tax is levied on sugarcane in Assam, Nagaland, Rajasthan, Orissa, West Bengal and Goa.

Source: Indian Sugar Year Book, 1999, 2000 & 2001), Vol.1, ISMA, New Delhi.

Administrative Arrangements: The Sugar Cane Commissioners' Office is concerned with the administration of purchase tax in the U.P. State. The sugarcane Commissioner is assisted in this task by Additional Sugar Commissioner and the Khandsari Inspectors. The office of Sugar Cane Commissioner is responsible for inspection of the purchase of sugarcane by the sugar mills and khandsari units.

Trends in Revenue: Table-7 shows the receipts under purchase tax on sugarcane. The amount of purchase tax from Sugar Mills increased from Rs. 24.57 crore in 1984-85 to Rs. 60.03 crore in 1994-95. Similarly, the amount of purchase tax from Khandsari units has also gone up from Rs.5.88 crore to Rs. 11.02 crore during the same period. Total collection from purchase tax on sugarcane was Rs. 30.45 crore in 1984-85, which increased to Rs.71.04 crore in 1994-95, and after a decline touched the highest figure of Rs. 96.95 crore in 1998-99. However, there has been a steady and sharp decline in total revenue collected from purchase tax on sugarcane. Tax collection amounted to only Rs. 18.82 crore in 2000-01, Rs. 23.60 crore in 2001-02 and Rs. 28.33 crore in 2003-04 (Table 7). Thus, in terms of revenue generation the contribution of this tax is negligible.

Table 7: **Revenue from Purchase Tax on Sugarcane in U.P.**

(Rs. in crore)

Year	Purchase Tax			Total Tax Revenue of the state
	From Sugar Mills	From Khandsari Units	Total	
1984-85	24.57	5.88	30.45	1140.18
1985-86	18.07	5.71	23.78	1291.41
1986-87	31.08	7.43	38.51	1528.60
1987-88	30.42	6.95	37.37	1988.66
1988-89	20.21	6.96	27.17	2065.74
1989-90	43.22	8.83	52.05	2448.12
1990-91	53.04	9.29	62.33	3162.12
1991-92	50.01	9.34	59.35	3497.38

1992-93	57.50	8.21	65.71	3886.34
1993-94	55.88	8.77	64.65	4132.01
1994-95	60.02	11.02	71.04	4878.31
1995-96	77.54	7.66	85.20	5468.92
1996-97	41.16	6.63	47.79	6305.97
1997-98	41.69	7.15	48.84	6997.96
1998-99	88.97	7.98	96.95	7910.11
1999-00	51.03	7.44	58.47	9400.91
2000-01	39.61	5.51	45.12	10980.00
2001-02	13.18	5.64	18.82	11501.95
2002-03	18.53	5.07	23.60	13181.22
2003-04	23.71	4.62	28.33	13707.66

Source: Sugarcane Commissioner's Office, Lucknow.

Creation of Funds: Under Section 3(10) of the U.P. Sugarcane (Purchase Tax) Act 1961 provides for the creation of three separate funds namely, U.P. Sugarcane Research & Development Fund, U.P. Sugar Factories Rehabilitation Modernization and Establishment Fund and U.P. Loan Assistance for payment of Sugarcane Price Fund. A fourth fund, namely, U.P. Cane Growers' & Labour Welfare Fund was created in the year 1995-96.

To the extent the rate of tax exceeds Re.1 per quintal, this part of the tax accruing to the state from sugar factories is credited to four separate funds in the following proportions:

(i) 36 per cent is credited to the U.P. Sugarcane Research and Development Fund. The money from the fund is given in the form of grant to the two research centres located at Shahjahanpur and Shiovahi and to Ganna Kishan Sansthan for extension and publicity work.

(ii) 24 per cent is given to U.P. Sugar Factories Rehabilitation, Modernization and Establishment Fund. This amount is given to sugar factories as loan. The loan is recoverable in five years with a one year moratorium.

(iii) 30 per cent is credited to the U.P. Loan Assistance for payment of sugarcane price fund. This is also given to sugar factories as loan to be recovered in five years with a one year moratorium.

Provided that the aggregate amount to be transferred to this fund shall not exceed Rs. 15 crore and any amount beyond that available shall be

transferred to funds mentioned in clause (a) and (b) in the ratio of 60 per cent and 40 per cent respectively.

(iv) 10 per cent is credited to U.P. Cane Growers' Welfare and Labour Welfare Funds. This was opened in 1995-96.

The expenditure from these funds is first approved by the Sugar Fund Committee as provided in Section 3(12) of the Act consisting of Secretary, Sugarcane, who functions as Chairman and Convener of the Committee, Cane Commissioner and Secretary Finance Department or his nominee not below the rank of Joint Secretary.

U.P. Government issued a Government Order on January 12, 2005 (No.4195, Sec.1-1606/2004)) for the crushing season 2004-05, after making amendments in purchase tax of sugarcane from sugar mills. According to this G.O., Sugar Mills would be liable to pay Rs.1.75 per quintal of cane to the cane growers out of Rs.2.0 per quintal from purchase tax as a part of cane price and remaining Rs.0.25 sugar mills have to deposit in favour of State Government at Government Treasury. This arrangement has been made to make help sugar mills to pay the cane price to the cane growers. According to this GO, the purchase tax rate in real sense would be only Re.0.25 per quintal of cane but the book value of purchase tax would be maintained as Rs.2.0 per quintal of cane. No wonder real recovery from this tax has fallen so sharply. Also, it has been informed by the officials of the Cane Commissioners' Office, Lucknow, that this practice has in fact been going on since 2000-01.

The khandsari units in U.P. were also required to pay purchase tax on cane purchased by them. So far as gur is concerned, it is completely exempted from any taxation, except in a few states where it is subject to very nominal rate of sales tax. There were two options available to khandsari units for depositing the purchase tax at the rate of Rs.1.50 per quintal. One to deposit purchase tax on sugarcane on the basis of cane purchased by them, second to opt for compounding scheme on the basis of the capacity of the crusher and the cane crushed. It has been informed that most of the khandsari units in U.P. have adopted the method of depositing the tax on the basis of compounding scheme, which is not based on the cane crushed but on the prescribed quantity for each type of capacity of the unit. But there is a big gap between the actual cane crushed and the prescribed cane for that particular type of capacity.

Utilization of Funds: Table 8 indicates the amount of loans taken by U.P. sugar mills from (1) Modernization Rehabilitation and Establishment Fund and (2) Sugarcane Price Fund. Table also makes it clear that the recovery of these loans is very poor. It has been informed by the officials of Cane Commissioner Office, Lucknow, that the recovery of loan is a difficult task even after five years, when payment is due. It can be recovered only from private sugar mills that too with the interference of District Magistrate. The recovery of loan from Public Sector Sugar Mills and Co-operative Sugar Mills has proved to be a difficult task. Recovery could be made of only Rs.863.53 lakhs out of the total loan of Rs. 7247.36 lakhs given to Sugar Mills from Modernization, Rehabilitation and Establishment Fund so far. Similarly, only an amount of Rs.3177.21 lakhs has been recovered against the locan of 17577.86 lakhs from the Sugarcane Price Fund (Table-8).

Table-8 Position of Loan of U.P. Sugar Mills from Welfare Funds (1976-77 to 2004-05)

Year	Loan from Modernization, Rehabilitation and Establishment Fund		Loan From Sugarcane Price Fund	
	Loan Amount (in lakh Rs.)	Recovery of Loan from Sugar Mills (in lakh Rs.)	Loan Amount (in lakh Rs.)	Recovery of Loan from Sugar Mills (in lakh Rs.)
1976-77	--	--	398.50	--
1977-78	150.00	--	--	--
1978-79	382.71	--	--	0.03
1979-80	101.25	--	300.00	--
1980-81	320.00	1.24	100.00	--
1981-82	577.68	63.21	290.75	10.00
1982-83	--	--	373.00	--
1983-84	322.00	43.72	1000.00	--
1984-85	--	53.43	1535.85	14.00
1985-86	--	137.20	35.00	25.63
1986-87	104.30	88.15	--	84.23
1987-88	1222.50	70.74	987.00	24.66
1988-89	495.00	31.86	440.00	65.63
1989-90	398.25	107.30	900.00	900.88
1990-91	--	122.00	1181.46	519.87
1991-92	--	2.23	500.00	79.95
1992-93	--	2.25	--	14.49
1993-94	--	45.74	--	104.53
1994-95	2050.00	86.19	461.00	6.00
1995-96	390.00	4.50	1200.00	--
1996-97	--	2.02	1600.00	31.15
1997-98	168.47	0.78	--	312.64
1998-99	65.20	--	1225.30	380.49
2000-01	--	--	5050.00	150.81
2002-03	200.00	--	--	--
2003-04	--	1.00	--	--
2004-05	--	--	--	452.22
Total	7247.36	863.56	17577.86	3177.21

source : Sugarcane Commissioner's Officer, Lucknow.

Recommendations

While making recommendations about the revision of Purchase Tax on sugarcane one must keep in mind the fact that most of the sugar mills in U.P. are quite old and sick and that the cane price to be paid by the sugar mills has been fixed at a fairly high level. As far as khandsari units are concerned, the effective burden of the tax on these units is higher than the sugar factories. The number of khandsari units in the state has been going down. Under these circumstances any sharp and sudden increase in the rate of purchase tax on sugarcane would further increase the burden on sugar mills and may prove to be counter productive. On the other hand it is also a fact that the rates of purchase tax in U.P. are relatively lower as compared to other states except Haryana and have remained unchanged for a long time, while the prices of sugarcane have been going up. Hence there is a scope moderately increasing the burden of this tax. Following recommendations are made in this regard:

(i) Since last few years the real realization of Sugarcane Purchase Tax is only @ Re.0.25 per quintal of cane instead of Rs. 2 per quintal of cane as remaining amount of Rs. 1.75 per quintal goes to cane growers as a part of cane price support. As a result realisation from purchase tax on sugarcane has reduced drastically and its revenue contribution has become negligible. The present practice not only violates the basic purpose of the tax but is also unconstitutional as state tax revenue cannot be appropriated directly. Sugarcane support price being provided by the state government is much higher than that recommended by Cost and Agriculture Price Commission. If state government wants to provide additional price support to sugarcane growers it should be funded by the state budget in a transparent manner in the shape of subsidy and full amount of purchase tax on sugarcane should be collected from the Sugar Mills as was being done earlier and credited to State accounts..

(ii) It would be advisable to switch over to ad valorem rates of purchase tax in place of the fixed rate as was recommended by the Uttar Pradesh Resource Mobilisation and Taxation Reforms Committee, 1996. The rates of purchase tax should be set at 5% of the sugarcane support price announced by the Government of India in case of sugar mills and 3 per cent in case of khandsari units. As the Government of India have topped

the practice of announcing support price, a committee may be set up to determine as to how it can be implemented.

(iii) It is further recommended that the two funds, namely, Modernization, Rehabilitation and Establishment Fund and the Sugarcane Price Support Fund, should be discontinued as they are not serving useful purpose. The amount of loan given out of these funds is hardly sufficient for the intended purpose. Moreover, the recovery rate is very poor. Special efforts should be made to realize the outstanding loans from these funds given to sugar mills.

(iv) A part of the tax collection as hithertofore should be credited to the U.P. Sugarcane Research and Development Fund, which is used to support the two research centres at Shahjahannpur and Shiovahi and the Ganna Sansthan as in the past.

(v) The share as per Act assigned for the U.P. Cane Growers Welfare and Labours Welfare Fund should continue for financing activities like developing facilities for cane growers, improving infrastructure at purchase centres, providing group insurance to cane growers and labourers.

(vi) Special efforts should be made to realize the arrears of the purchase tax.

(vii) Since only around 45 per cent of sugarcane produced in the state is used for crushing by sugar mills and khandsari units it is recommended that a liberal policy towards granting of licenses to sugar mills and khandsari units should be followed, which will not only benefit the sugar industry, but would also promote the welfare of sugarcane growers. In turn it will also fetch higher revenue to the government.

BACKGROUND PAPER
On
RATIONALISATION OF USER CHARGES FOR MEDICAL AND HEALTH SERVICES

PREPARED FOR

THE COMMISSION ON RESOURCE AND EXPENDITURE
GOVERNMENT OF UTTAR PRADESH

By

A.K. SINGH
&
A. JOSHI

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GIRI INSTITUTE OF DEVELOPMENT STUDIES
Sector O, Aliganj Housing Scheme
LUCKNOW 226 024

Rationalization of User Charges In Medical and Health Services

I. Introduction

A well developed system of social services like education and health is extremely important for any economy since these services make a positive contribution in the development of human capital. Good health and education command a premium from employers in the labour market. Income of a worker gets adversely affected if he withdraws from the labour force either due to illness or malnutrition. Good health, proper nutrition and educational achievements are not simply attributes which increase income of individuals and contribute positively towards economic growth, but are qualities desirable as an end in themselves for the upliftment of both the individual and the society as a whole. As the first *Human Development Report, 1990* states that "the real wealth of a nation is its people and the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives."

After Independence the government launched a very ambitious programme for providing health services in the country. The task of setting up Primary Health Centres (PHCs) was undertaken on a large scale. Upto 1983 the country did not have a health policy. It was after the Alma Ata Deceleration which called for achievement of health for all by 2000 AD and stressed the importance of primary health care that India's health policy statement endorsed the goal of good health for all by 2000 through universal provision of primary health services. After 1985 the Community Health Centres (CHCs) were also introduced. Above the CHC is the district hospital. The health delivery system is a now a four-tiered system.

II. Indicators of Health

Table 1 highlights the fact hat during the last three decades considerable improvements have taken place both at the state as well as the national level in health indicators. The birth, death and infant mortality rates have come down appreciably. Consequently the expectancy of life has gone up. However, despite these improvements, the achievement of the state is still not only below the national average in terms of health indicators but far below that of states like Kerala, which ranks first among all states with respect to health indicators (Table 2). Infant mortality rate in U.P. is 83 against 13 in Kerala. Similarly, life expectancy is in U.P. is lowest among the major states and 16 years less than in Kerala. Thus, U.P. has still to cover much ground to improve the health status of its people.

Table 1: **Indicators of Health in U.P. and India**

State/India	Birth Rate (per 000)	Death Rate (per 000)	Infant Mortality Rate (per 000)	Life expectancy (Years)
Uttar Pradesh				
1971	44.9	20.1	167	49.0
1994	35.4	11.0	88	55.4
2001	31.6	9.7	80	63.8
India				
1971	41.2	19.0	129	45.6
1994	28.6	9.2	73	61.0
2001	25.0	8.1	63	65.4

Source: *Health Information of India*, Directorate of Health Services, Govt. Of India.

Table 2: **Mortality Indicators in Selected States**

States	Infant Mortality Rate 2000			Under five mortality 1998-99*	Life Expectancy at birth 1992-96*			MMR (Per hundred thousand) 1998*
	Total	Rural	Urban		Male	Female	Total	
Andhra Pradesh	65	74	36	85.5	60.8	63.0	62.0	159
Assam	75	78	35	89.5	56.1	56.6	56.2	409
Bihar	62	63	53	85.1	60.2	58.2	59.4	452
Gujarat	62	69	45	105.1	60.5	62.5	61.4	28
Haryana	67	69	57	76.8	63.4	64.3	63.8	103
Karnataka	57	68	24	69.8	61.1	64.5	62.9	195
Kerala	14	14	14	18.8	70.2	75.8	73.1	198
Madhya Pradesh	87	93	54	137.6	55.1	54.7	55.2	498
Maharashtra	48	56	33	58.1	63.8	66.2	65.2	135
Orissa	95	99	66	104.4	56.9	56.6	56.9	367
Punjab	52	56	38	72.1	66.4	68.6	67.4	199
Rajasthan	79	82	58	114.9	58.6	59.6	59.5	670
Tamil Nadu	51	56	38	63.3	62.8	64.8	63.7	79
Uttar Pradesh	83	87	65	122.5	57.7	56.4	57.2	707
West Bengal	51	54	37	67.6	61.8	63.1	62.4	266
India	68	74	44	94.9	60.1	61.4	60.7	407

Source: Col 2: Registrar General, India, SRS Bulletin, New Delhi, April 2002.
Col 3: NFHS (2), 1998-99, October.2000, Table 6.6, page 194.
Col 4 & 5: Compendium of India's Fertility and Mortality Indicators, 1971-1997, RGI, New Delhi 1999.

Note: * figures for states of Bihar, M.P and U.P include Jharkhand, Chastisgarh and Uttaranchal respectively.

The availability and utilisation of health facilities in U.P. also presents a dismal picture. As per the Second National Health and Family Survey 1998-99 hardly 16% of births in U.P. take place in a medical institution and hardly 21% of children were protected through immunisation (Table 3). The differences between the urban and rural areas in terms of availability of health facilities and health indicators are also glaring.

Table 3: **Health Indicators**

Major states	Child Immunization (%) 1998-99*			Births in Medical Institutions (%) 1998-99*			% of births attended by a trained professional 1998-99*	Couple Protection Rate (%) 1998-99*		
1	2			3			4	5		
	Total	Rural	Urban	Total	Rural	Urban		Total	Rural	Urban
Andhra Pradesh	52	48.9	61	50	40.4	78.6	65.2	59.6	58.3	63.4
Assam	17	14.9	50.1	17.6	15	59.9	21.4	43.3	42.3	53.4
Bihar	10.6	9.4	22.4	14.7	12.4	39.9	23.4	24.5	22.9	38.9
Gujarat	48.3	44.9	54.3	46.4	33.2	69.4	53.5	59	57	61.8
Haryana	62.7	58.2	76.5	22.3	14.9	47.1	42	62.4	60.4	67.2
Karnataka	60	60.4	59	51.1	38.7	78.8	59.1	58.3	57.4	59.9
Kerala	79.2	77.9	84.9	93	91.5	99.4	59.4	63.7	63.2	65.5
Madhya Pradesh	22.4	17	41.2	20.4	12.3	49.8	29.7	44.3	40.7	55.2
Maharashtra	78.2	76.8	80.4	52.8	34.6	80.9	22.4	60.9	62.7	58.5
Orissa	43.7	42.2	56.4	22.9	19.3	54.7	33.4	46.8	45.9	54
Punjab	72.1	66.3	86.2	37.5	32	56	62.6	66.7	64.4	71.7
Rajasthan	16	13.1	26.4	21.7	15	47.9	35.8	40.3	37.1	50.4
Tamil Nadu	78.2	76.6	81	79.8	73.1	92.6	83.3	52.1	48.8	58.2
Uttar Pradesh	21.2	19.2	32.3	15.7	11.7	37.3	22.4	28.1	23.9	44.8
West Bengal	43.1	40.8	56.3	40.4	31.5	80.1	44.2	66.6	64.5	73.4
India	42	36.6	60.5	33.6	24.6	65.1	42.3	48.2	44.7	58.2

Source: National Health and Family survey II, 1998-99.

Note: * figures for states of Bihar, M.P and U.P include Jharkhand, Chattisgarh and Uttaranchal respectively.

Similarly if we look at the position of U.P. and India as compared to some of the other developed and developing countries we will realize that achievements are far from satisfactory (Table 4). It needs to be noted that health expenditure as a percentage to GDP ranges between

roughly 8-14 per cent the developed countries against the figure of 6.1% for India. Per capita expenditure on heath ranges from 2000 dollars to 5274 dollars in the developed countries against a meagre 30 dollars in India.

Table 4: **A Comparative Picture of Health Services among Selected Countries**

Country	Health Expenditure Total as % of GDP (2002)	Health Expenditure per capita ($) (2002)	Physicians per 000 of population		Hospital Beds per 000 of population		Access to improved water source % of population (2002)	Access to improved sanitation % of
			1990	2004	1990	1995-2002		
Developing Countries								
Bangladesh	3.1	11	0.2	0.2	0.2	0.3	75	48
Brazil	7.9	206	1.4	2.1	3.3	3.1	89	75
China	5.8	63	1.5	1.6	2.6	2.5	77	44
India	6.1	30	0.5	0.5	0.8	--	86	30
Pakistan	3.2	13	0.5	0.7	0.6	--	90	54
Republic of Korea	5.0	577	0.8	1.8	3.1	6.1	92	--
Sri Lanka	3.7	32	0.1	0.4	2.7	--	78	91
Developed Countries								
Canada	9.6	2222	2.1	2.1	6.3	3.9	100	100
France	9.7	2348	2.6	3.3	9.7	8.2	--	--
Germany	10.9	2631	3.1	3.6	10.4	9.1	100	--
Japan	7.9	2476	1.7	2.0	16.0	16.5	100	100
U.K.	7.7	2031	1.4	1.7	5.9	4.1	--	--
U.S.A.	14.6	5274	2.4	5.5	4.9	3.6	100	100

Source: *World Development Indicators*, World Bank, 2005.

III. Public Expenditure on Health Sector in U.P.

The allocations to the health sector in five year plans of U.P. have been shown in Table 5. The table reveals that there has been a steady increase in the funds allocated for this sector right upto the Tenth Plan. However, when we look at the share of the health sector in the total outlay we find fluctuations from one plan to the other. In the first plan the share of the health sector was as high as 8.50 per cent to total outlay. During the next two plans the share dropped sharply to around 4 per cent. The down ward trend continued in the fourth and the fifth plan. Health sector received only2.78% and 1.30% of plan allocations in these two plans respectively. The share of health sector in plan allocation improved to some extent in the sixth and the seventh plan, but dropped again in the eight and the ninth plan. During the Tenth Plan again an upswing is witnessed with the health sector being allocated a share of around 4 per cent in the total plan outlay for the state.

Table 5: **Plan-wise Outlays on Health**

Plan	Total Plan Outlay (Rs.Crore)	Outlay for Health (Rs.Crore)	Outlay on Health as a % of Total Plan Outlay
First Plan	153.37	13.03	8.50
Second Plan	233.36	9.88	4.23
Third Plan	560.63	24.70	4.41
Fourth Plan	1165.57	32.44	2.78
Fifth Plan	2909.25	37.74	1.30
Sixth Plan	6594.29	190.79	2.89
Seventh Plan	11948.72	457.33	3.83
Eighth Plan	21679.82	567.87	2.62
Ninth Plan	28039.18	655.69	2.32
Tenth Plan	59708.00	2405.43	4.03

Source: *Annual Plan, Uttar Pradesh, 2004-05.*

Table 6 shows the trends in per capita expenditure on health and medical services in U.P. since 1980-81. Per capita public expenditure on health in the state is extremely low. Moreover, it has shown a fluctuating trend over time. It increased in real terms from around Rs. 4 in 1980-81 to around Rs. 61 in 1990-91. But after that it again registered a decline except in a few years. States like Kerala are spending more than double in per capita terms on health sector as compared to U.P. There is, therefore, a clear case for increasing health expenditure in the state.

Table 6: **Per Capita Real Expenditure on Medical and Health Services in U.P. at 1993-94 Prices (in Rs.)**

Year	Real Expenditure on Medical and Health Expenditure
1980-81	40.13
1981-82	43.70
1982-83	49.55
1983-84	59.44
1984-85	64.08
1985-86	46.72
1986-87	49.15
1987-88	53.67
1988-89	59.45
1989-90	60.79
1990-91	61.15
1991-92	52.33
1992-93	56.62
1993-94	63.34
1994-95	54.73
1995-96	55.36
1996-97	57.14
1997-98	64.53
1998-99	49.69
1999-00	48.33
2000-01	51.04
2001-02RE	62.33
2002-03BE	55.49

Source: Calculated from *RBI Report on State Finances*

IV. Health Infrastructure

Table 7 shows the expansion of health infrastructure in rural areas of U.P. during the period 1991-2000. The decline in the number of sub-centres and PHCs in 2000-01 as compared to 1993-94 is attributed to the fact that in 2000 Uttaranchal was carved out of U.P. as an independent state. The improvement in the health infrastructure between 1993-94 and 2003 can be clearly seen from the fact that the total number of hospitals and dispensaries over this period have increased from a total of 4375 during 1993-94 to 8102 in 2003.

Table 7: **Health Infrastructure in Rural Areas of U.P.**

Item	1991-92	1993-94	2000-01
Sub-Centres	20153	20153	18629
Primary Health Centres	3625	3751	3551
Community Health Centres	228	258	287
Hospitals/Dispensaries	4192	4375	8102
(a) Allopathic	776	776	4568
(b) Ayurvedic/Unani	2433	2533	2210
(c) Homeopathic	983	1066	1324
Number of Beds	28670	30126	66318
(a) Allopathic	21600	22716	55684
(b) Ayurvedic/Unani	6452	6852	10251
(c) Homeopathic	558	558	383

Source: Annual Plan, U.P., 1995-96, Vol.V, Government of U.P., for figures of 1991-92 and 1993-94 and Bulletin on Rural Health Statistics in India, March 2002 for number of Sub-Centres, PHCs ad CHCs in 2000-01.

Note The figures of Hospitals/dispensaries and No. of beds under column 2000-01 are for the year 2003 as indicated in the statistical diary of U.P. (2003-04).

Uttar Pradesh has the maximum number of Sub-Health Centres, PHCs and CHCs. However, when we look at the average rural population which these centres are catering to the situation of the state is far from satisfactory. Each sub-centre in U.P. is covering as many as over 7000 persons against the prescribed norm of 5000 (Table 8). In fact, among the 16 states listed in the table, Uttar Pradesh occupies the 14^{th} rank. The state fares slightly better in the case of rural population covered by PHC. U.P. ranks at 10th among the states in terms of population per PHC. When we look at the rural population covered by a CHC it is found that in U.P. the figure is 4.58 lakhs which is almost four times the norm of 1.20 lakh which has been laid down. Once again U.P. is ranked as low as 13th among the states. With respect to the norm laid down for PHC and CHC the number of states which fulfil the norm are 6 and 1 respectively (Table 8).

Table 8: **Availability of Health Services and Prescribed Norms in the Rural Areas of Selected States (2001)**

Sl. No.	State	Health Facilities (Nos.)			Average Rural Population Covered in 2001		
		Sub-Centre	PHC	CHC	Sub-Centre	PHC	CHC (in Lakhs)
1	Andhra Pradesh	10568	1386	219	5226	39844	2.52
2	Assam	5109	610	100	4551	28113	2.32
3	Bihar	10337	1648	101	7178	45024	7.35
4	Gujarat	7274	1001	242	4358	31666	1.31
5	Haryana	2299	401	64	6511	37329	2.34
6	Himachal Pradesh	2069	302	65	2650	18154	0.84
7	Karnataka	8143	1676	249	4275	20772	1.40
8	Kerala	5094	944	105	4627	24970	2.24
9	Madhya Pradesh	8129	1178	228	5447	37591	1.94
10	Maharashtra	9725	1768	351	5731	31523	1.59
11	Orissa	5927	1352	157	5226	23085	1.99
12	Punjab	2852	484	105	5625	33148	1.53
13	Rajasthan	9926	1674	263	4359	25847	1.65
14	Tamil Nadu	8682	1436	72	4016	24282	4.84
15	Uttar Pradesh	18629	3551	287	7061	37043	4.58
16	West Bengal	8126	1262	99	7105	45749	5.83
17	All India	137311	22842	3043	5401	32469	2.44
	Norm				5000	30000	1.20

Source: Directorate General of Health Services, *Bulletin on Rural Health Statistics in India, March 2002*

Table 9 indicates the availability of infrastructure facilities in the PHCs in selected states. Out of the total PHCs surveyed across 15 large states of the country it was found that on an average around 62 per cent had water supply and around 81 per cent were electrified. The percentage of PHCs with facility of labour room and laboratory was below 50 per cent at the national level. The situation was even worse with respect to PHCs having a telephone connection (19%) and a vehicle in working condition (28%). Around 65 per cent of the PHCs had a deep freezer to stock vaccines and other medicines.

In case of Uttar Pradesh it is found that the level of infrastructure is well below the national average for each type of infrastructure facility. Though the state had over 18 thousand PHCs in 2001, most of them are poorly equipped and do not even have proper drinking water facility. Only 40% of the PHCs in U.P. have electricity connection. The proportion of PHCs having a deep freezer is even lower (23%). Considering the fact that on an average a PHC caters to a population of around 7000 persons it is unfortunate that only 20 per cent of them have a labour room and barely around 31 per cent have a laboratory for conducting tests. More funds need to be allocated to PHCs so that infrastructure available in them can be raised at least to the national level. With respect to CHCs the situation in Uttar Pradesh is better than the all India average with respect to most items of infrastructure (Table 10).

Table 9: **Status of Infrastructure in PHCs in Selected States (2002-03)**

Sl. No.	State	No. of PHCs surveyed	Infrastructure						
			Water	Electri-city	Labour Room	Labo-ratory	Tele-phone	Vehicle working	Deep freezer
1	Andhra Pradesh	622	323	597	255	348	56	162	554
2	Assam	333	256	273	123	20	10	37	240
3	Bihar	339	210	105	51	64	3	92	64
4	Gujarat	614	239	602	332	571	344	497	534
5	Haryana	73	56	69	10	69	52	4	60
6	Karnataka	854	615	786	495	521	188	179	512
7	Kerala	790	632	751	190	150	111	142	608
8	Madhya Pradesh	386	224	235	66	42	8	35	135
9	Maharashtra	645	510	632	555	626	335	387	632
10	Orissa	505	389	303	167	111	15	86	192
11	Punjab	26	26	26	23	25	20	20	24
12	Rajasthan	484	310	344	252	286	24	44	295
13	Tamil Nadu	672	437	665	417	457	128	289	632
14	Uttar Pradesh	486	175	199	97	151	10	68	112
15	West Bengal	825	363	635	594	33	149	99	347
Total All States		**7654**	**4765**	**6222**	**3627**	**3474**	**1453**	**2141**	**4941**
% all states			**62.3**	**81.3**	**47.4**	**45.4**	**19.0**	**28.0**	**64.6**
% U.P.			**36.0**	**40.9**	**20.0**	**31.1**	**2.1**	**14.0**	**23.0**

Source: *India Infrastructure Database.*

Table 10: **Status of Infrastructure in CHCs in Selected States (2002-03)**

Sl. No.	State	No. of CHCs surveyed	Infrastructure							
			Water	Electri-city	Opera-tion Theatre	Labour Room	Labo-ratory	Gene-rator	Tele-phone	Vehicle workin g
1	Andhra Pradesh	63	45	57	59	27	31	38	41	18
2	Assam	24	8	20	14	4	5	6	1	11
3	Bihar	2	1	2	2	0	1	1	0	1
4	Gujarat	97	85	94	84	14	69	31	86	70
5	Haryana	10	9	8	10	1	9	7	10	7
6	Karnataka	69	59	66	67	39	33	41	53	46
7	Kerala	108	103	105	98	37	56	71	83	83
8	Madhya Pradesh	46	10	42	30	5	29	6	10	31
9	Maharashtra	71	54	71	70	13	66	68	64	57
10	Orissa	69	14	55	50	8	31	4	11	32
11	Punjab	107	80	98	96	24	80	56	52	35
12	Rajasthan	55	39	53	49	27	42	20	24	37
13	Tamil Nadu	41	36	33	27	5	17	17	14	17
14	Uttar Pradesh	24	18	23	23	12	14	23	14	10
15	West Bengal	65	45	59	55	13	25	49	58	59
Total All States		**851**	**606**	**786**	**734**	**229**	**508**	**438**	**521**	**514**
% all states			**71.2**	**92.4**	**86.3**	**26.9**	**59.7**	**51.5**	**61.2**	**60.4**
% U.P.			**75.0**	**95.8**	**95.8**	**50.0**	**58.3**	**95.8**	**58.3**	**41.7**

Source: *India Infrastructure Database.*

V. Equity in Health Care Services

In a state like U.P. where per capita incomes are low and a sizeable population is living below the poverty line the question of equity in the availability of medical and health facilities assumes great importance. Unfortunately studies reveal that the poor have a limited access to public health facilities, which are mainly availed by the better off sections. Analysis of NSS 52nd Round (1995-96) shows that out of the hundred rupees spent on curative services in health by the government the poorest 20% get only ten rupees, while the richest 20% get forty one rupees ((Table 11). The survey also revealed that the top 40 per cent households in terms of consumption expenditure accounted for 53 per cent of hospitalisation, whereas the bottom 40 per cent accounted for only 28 per cent hospitalisation.

Table 11: **Public Sector Health Expenditure by Wealth Quintile**

State	Sex	Poorest 20%	2nd Quintile	3rd Quintile	4th Quintile	Wealthiest 20%
Uttar Pradesh	Male	10.3	9.7	14.4	12.0	53.5
	Female	9.9	9.7	11.3	35.9	33.3
	Total	**10.0**	**9.7**	**12.5**	**26.4**	**41.3**
All India	Male	9.7	13.3	15.5	25.1	36.4
	Female	10.7	14.4	20.9	25.6	28.5
	Total	**10.2**	**13.9**	**18.4**	**25.3**	**32.3**

Source : Based on NSS 52nd Round, 1995-96 taken from World Bank, *Poverty in India: The Challenge of Uttar Pradesh,* 2002, p.

The findings of the study by Mahal et. al. are particularly revealing and relevant in this context. Using NSS and budget data the study revealed that the poorest 20 per cent of the population captured only 10 per cent of the total net subsidy. Contrary to this the richest 20 per cent captured 33 per cent of the total net subsidy at the all India level. Looking at the share of the total net subsidy reaching the people below poverty line it was found that the 36 per cent population which was below poverty line received only 26 per cent of the total net subsidy. This clearly goes to show that the publically financed and subsidised curative care subsidies are pro-rich in distribution. This is so primarily because the higher income group people are more likely to seek and avail health care services and also because the rich are more likely to use hospital-based services both inpatients and outpatients.

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*Ajay mahal, Abdo S. Yazbeck, David H. Peters and G.N.V. Ramana, "The Poor and Health Service Use in India," in Edgardo M. Favaro & Ashok Lahiri (eds.), *Fiscal Policies anc Sustainable Growth in India,* Oxford University Press, New Delhi, 2004.

Inter state comparisons revealed inequality in use of curative health facilities was much higher in U.P. as compared to most of the states, Bihar being the worst performer in this respect. Only one-sixth of the inpatient bed-days were utilised by population below poverty line in U.P., whereas the proportion of the poor in total population was above one-third.

In order to make the public health system more pro poor the study suggests changes in the pattern of resource allocation in the health budget on the following lines:

(i) A portion of the budget should be reallocated to the primary and secondary facilities given the fact that dominant use of tertiary hospitals is done by the richer sections.

(ii) A proportion of the budget should be reallocated towards preventive care since on grounds of equity it appears to be a relatively better investment.

(iii) The urban/rural differentials point towards the need to increase the resource allocation to the rural areas.

(iv) While providing curative care services on subsidized rates the government must ensure that they are being availed by only the eligible sections of the society. People living below the poverty line may be provided even free facilities provided they produce their BPL ration card.

The Mid-Term Appraisal of the Tenth Five Year Plan by the Planning Commission (June 2005) has observed that since hospitalisation is a major contributor to subsidy benefits, utilization at rural public hospitals would enable government subsidies to be more pro-poor, particularly since 61 per cent of the poorest are found to favour public hospitals for inpatient care. The Appraisal suggests that more equitable health outcomes are possible if we make services work for poor people, create competition among providers and create options for consumers. It recommends that disfunctional public facilities could be energized through franchised network of public and private providers.

VI. National Rural Health Mission

The National Rural Health Mission (NRHM) has been launched in April 2005 and has a seven year time frame (2005-2012). The aim is to implement innovative convergence that will create competition among providers and provide choices to consumers. All states have been advised to implement the Tamil Nadu experience where close to 58 per cent health sub-centres are functioning round the clock and have properly trained staff and the most commonly used medicines or other items. Every sub-centre is registered as a Rogi Kalyan Samiti.

It is recommended that in the PHCs where doctors are not willing to work full time, public health professionals may be appointed who will be trained to comprehend the backward and forward linkages between prevention and mitigation of illness. If even public health professionals are not available then the PHC could be headed by a fully trained nurse clinician.

Under the NRHM there is provision for setting up a 30-50 bed community hospital for every 1 lakh population with a full complement of trained doctors and nurses to provide comprehensive obstetric care, disease management and a referral systems. These hospitals can be registered as Rogi Kalyan Samitis. The School Health Programme will be dovetailed with NRHM to ensure that growing children are direct beneficiaries of all health related interventions. Under NRHM an Accredited Social Health Activist (ASHA) will be deployed in each village who will be trained in health care delivery.

The Uttar Pradesh government has implemented the NRHM in the state and a 33 member committee has been constituted under the Chairmanship of the Chief Minister. The Central Government has allocated Rs.74592.32 lakh to the state for the year 2005-06. A task force will be constituted to implement the programme at the state and district levels to ensure that majority of the rural population gets the best facility of health services.

VII. Private Expenditure on Health Care Services

We may now analyse the private expenditure on health care services in the state. The proportion of persons reporting an ailment in Uttar Pradesh was 6.1 per cent as per data of the 52nd round of NSS. This figure was slightly higher in the case of females as compared to the males. Out of the total cases reporting ailment only 92 per cent sought treatment. However, among them the proportion of males was higher as compared to females. Another fact which emerged was that utilization was higher in urban areas than in rural areas as would be expected.

As far as treatment as out-patients is concerned, the average expenditure per person per ailment was Rs.202 in the rural areas and Rs.212 in the urban areas of Uttar Pradesh during last fifteen days preceding the survey (Table 12A and 12B). These figures were considerably higher than the national average. Surprisingly, the expenditure was higher in case of governmental hospitals as compared to other hospitals.

The rate of hospitalisation was 0.8 per cent. Among the cases which reported hospitalisation, 60 per cent in rural and 55 per cent in urban areas were admitted in free (general) wards of hospitals, while only 23 and 20 per cent patients from rural and urban areas respectively actually received free treatment. The average cost of hospitalisation and related medical expenses per treatment was Rs.4349 in the rural and Rs.5896 in urban areas (Table 13). Average expenditure on hospitalisation has increased considerably since the 42nd round of NSS where the average cost of hospitalisation in Uttar Pradesh was around Rs.650 in rural areas and around Rs.920 in urban areas. Average hospitalisation expenditure is considerably higher in case of private hospitals as compared to the government hospitals.

Table 12A: **State Wise Average Medical And Other Related Non-Medical Expenditure Per Treated Ailment During 15 Days By Source Of Treatment: Rural (Rs.)**

State	Medical expenditure by source of treatment			Other expenditure by source of treatment			Total expenditure by source of treatment		
	Govt.	Other	All	Govt.	Other	All	Govt.	Other	All
Andhra Pradesh	44	187	147	7	23	18	51	210	165
Assam	145	98	115	62	17	36	207	115	151
Bihar	169	195	198	18	25	23	187	220	213
Gujarat	61	145	130	15	30	27	76	175	157
Haryana	198	172	174	22	14	15	220	186	189
Karnataka	61	127	108	9	15	14	70	142	122
Kerala	85	145	119	18	18	17	103	163	136
Madhya Pradesh	94	161	140	10	16	15	104	177	155
Maharashtra	73	161	147	17	18	18	90	179	165
Orissa	118	151	137	11	7	10	129	158	147
Punjab	137	168	164	16	11	11	153	179	175
Rajasthan	181	133	172	17	23	20	198	156	192
Tamil Nadu	10	129	89	9	14	13	19	143	102
Uttar Pradesh	363	205	203	45	20	21	408	225	224
West Bengal	157	126	123	11	9	8	168	135	131
India	110	168	157	19	18	19	129	186	176

Source: *NSS 52nd Round (1995-96), Report No. 441*

Table 12B: **State Wise Average Medical And Other Related Non-Medical Expenditure Per Treated Ailment During 15 Days By Source Of Treatment: Urban (Rs.)**

State	Medical expenditure by source of treatment			Other expenditure by source of treatment			Total expenditure by source of treatment		
	Govt.	Other	All	Govt.	Other	All	Govt.	Other	All
Andhra Pradesh	67	177	158	16	15	14	83	192	172
Assam	171	152	163	23	14	17	194	166	180
Bihar	65	218	194	15	19	18	80	237	212
Gujarat	117	210	196	22	20	22	139	230	218
Haryana	636	324	390	75	13	24	711	337	414
Karnataka	120	160	151	16	24	21	136	184	172
Kerala	78	124	106	12	16	14	90	140	120
Madhya Pradesh	477	264	352	36	15	24	513	279	376
Maharashtra	91	175	163	34	20	22	125	195	185
Orissa	128	127	128	15	6	8	143	133	136
Punjab	201	154	156	4	6	6	205	160	162
Rajasthan	157	209	185	12	14	13	169	223	198
Tamil Nadu	23	148	112	10	16	17	33	164	129
Uttar Pradesh	228	217	211	32	15	16	260	232	227
West Bengal	72	142	126	8	11	11	80	153	137
India	146	185	178	20	15	16	166	200	194

Source: *NSS 52nd Round (1995-96), Report No. 441*

Table 13: **Average Total Expenditure Per Hospitalization By Type Of Hospital For Rural And Urban Areas Of 15 Major States (Rs.)**

State	Rural			Urban		
	Govt. Hospitals	Other Hospitals	All	Govt. Hospitals	Other Hospitals	All
Andhra Pradesh	2070	7822	6428	1310	7080	4886
Assam	2092	2003	1945	2201	7102	3790
Bihar	3488	4069	3860	2804	4512	3724
Gujarat	1465	3285	2663	1897	4185	3327
Haryana	2667	3496	3224	8888	5087	6537
Karnataka	1791	4100	2997	1564	4502	3593
Kerala	1616	2805	2293	1527	2254	1927
Madhya Pradesh	2207	3482	2191	1678	3889	2774
Maharashtra	1529	3836	3089	1439	5345	3997
Orissa	1681	2583	1641	2142	11829	3868
Punjab	3645	6171	4988	5436	6130	5712
Rajasthan	2634	3971	3038	2544	4949	3149
Tamil Nadu	751	4333	2840	934	5827	3934
Uttar Pradesh	4237	4521	4349	5191	6515	5896
West Bengal	1500	4303	1957	1348	7836	3217
India	2080	4300	3202	2195	5344	3912

Source: *NSS 52nd Round (1995-96), Report No. 441*

In short, the above analysis shows that the people are spending a substantial amount on medical expenses even when they take treatment in the government hospitals. Despite the fact that individuals in rural and urban areas have been spending such high amounts on hospitalisation the charges in government hospitals are quite low. This means that the costs are high as a result of other expenditures such as medicines not available in the hospital, etc.

VIII. Policy on User Charges in Medical and Health Sector

As can be seen from Table 14, total fees and collections from the medical and health services amount to only around 2.5% of total expenditure on medical health and family welfare. The proportion rises to around 4.5% if we take into account only the expenditure on the medical services. Thus, the services are highly subsidised and fees and user charges are very low. The hospitals are unable to raise resources of their own to provide proper medical services to the people, while the government is unable to provide sufficient funds from its budgetary sources due to financial constraints. No wonder that the availability of infrastructure in the government hospitals and CHCS and PHCs is extremely poor as we have seen above. Bulk of the public expenditure is spent on salaries of the staff.

Table 14: **Revenue Expenditure on Medical and Family Welfare**

(Rs. in Crore)

Item	2001-02	2002-03	2003-04	2004-05 R.E.	2005-06 B.E.
1	**2**	**3**	**4**	**5**	**6**
Allopathic	590.81	690.93	786.71	919.58	962.6
Ayurvedic/Unani	100.56	108.43	122.72	137.99	129.61
Homeopathic	48.32	49.89	51.71	61.83	62.12
Total Medical Services	**739.69**	**849.25**	**961.14**	**1119.4**	**1154.33**
Family Welfare	264.09	273.81	361.6	543.68	434.99
State Employer's Welfare Scheme	34.26	35.88	39.33	41.54	41.37
Medical Education and Training	169.53	249.31	208.08	327.13	614.99
Total Medical & Health	**1207.57**	**1408.25**	**1570.15**	**2031.75**	**2245.68**
Revenue Receipt from Medical, Public Health & Family Welfare	31.63	42.45	43.18	51.28	52.27
(a) As % of Medical Services	4.28	5.00	4.49	4.58	4.53
(b) As % of total Medical and Public health	2.62	3.01	2.75	2.52	2.33

Source: *Uttar Pradesh Budget in Outline,* Finance Department, GOUP, 2005-06.

The U.P. Resource Mobilization and Taxation Reforms Committee (1996) had examined the issue of user charges in health services and made the following important recommendations:

(1) Registration fee should to raised to Rs.2.00 at PHC and CHC level, while in the government hospitals/dispensaries in urban areas should be fixed at Rs.5.00.

(2) User charges for medicines, tests, linen, food, bed charges, etc. should be revised with a view to realise full cost.

(3) Subsidies should be confined only to the needy persons.

(4) A comprehensive social health insurance scheme should be introduced even at a modest level with the involvement of the village panchayats and insurance companies.

(5) A few selected PHCs and CHCs should be handed over to the private sector preferably NGOs on an experimental basis with proper safeguards.

(6) The quality of services provided by public medical institutions should be upgraded through adequate funding and effective management and supervision.

Following these recommendations the Medical and Health Department of the State government issued a GO (No.984/5-1-2000-4(80)/95) dated 28 June 2000 raising the user charges and fees in government hospitals in order to offer better and qualitative health services to the people of the state. The GO fixed user charges for various health services both for rural and urban areas. The revised rates were to become applicable from 1 July 2000. The normal user charges applicable in rural and urban areas as fixed in the said GO are shown in Table 14. The GO further stated that all these charges will be enhanced by 10 per cent with each calendar year subject to a minimum increase of Re.1/-.

Table 15: **Details of User Charges Government Hospitals in U. P. as Laid Down in GO No.984/5-1-2000-4(80)/95 dated 28 June 2000**

(in Rs.)

Sl. No.	Type of Facility	Rural Areas		Urban Hospitals
		PHCs	CHCs	
1.	Registration Fee	2.00 for 15 days	2.00 for 15 days	5.00 for 15 days
2.	Admission Fee	Nil	10.00	25.00
3.	Charges for Bed			
	i. General ward	Nil	Nil	Nil for 1st 3 days, 5.00 from 4th da onwards
	ii. Paying ward	Nil	Nil	25.00 per day
	iii. Private ward:			
	(a) 2 bed ward	Nil	Nil	50.00 per day per bed
	(b) Single bed ward	Nil	Nil	75.00 per day
	(c) Air cooled ward	Nil	Nil	125.00 per day
	(d) Air conditioned ward	Nil	Nil	250.00 per day
	(e) Heater, etc.	Nil	Nil	20.00 per day
4.	Diet of Patient:			
	i. General ward	Nil	Nil	Nil
	ii. Paying ward	Nil	Nil	100.00 per day, on request
	iii. Private ward	Nil	Nil	100.00 per day, on request
5.	Ambulance charges	Rs.5/- per km. with a minimum charge of Rs.50/-		
6.	Private medico-legal fees	Rs.50/- out of this 50% will be deposited in the Govt. fund.		

Besides these user charges the GO also gave details of the charges which will be admissible for various pathological and radiological tests as well as for various types of operations carried out in the government hospitals. The rates were different for patients in general category and private wards. The GO is appended as Annexure A.

Due care was taken of the people from the poorer sections in the GO while fixing the user charges. The GO, for instance, provided that no charges will be taken from people living below the poverty line for treatment in government hospitals either as out patients or in-patients provided they produce their BPL ration cards as evidence. Furthermore, all services provided under the National Family Programme, Mother and Child Care (now known as Child Health Programme) are to be provided free of cost. The GO also mentions that destitutes, under-trials and emergency cases will not be charged any registration fee or fee for any other services.

Thus, on the whole the upward revision of the user charges in public health institutions done through the GO dated 28th June 2000 was eminently rational and reasonable and it kept the interest of the poor people in mind. The GO was implemented till 2003 in all respects. However, there was backtracking on the issue by the Government after that, when a new political party came to power. A new GO was issued on 30.8.2003 (No.3090/5-1-2003-4(80/95),

which declared that charges for registration and admission in all PHCs, CHCs and urban hospitals were to be reduced to Re.1/-. Even the bed charge in the general ward of urban hospitals was reduced to Re.1/-. There was however, no change in the user charges in paying and private wards. This GO was followed by another GO on 31.12.2003 (No.4544/5-1-3-2003-4(143/2003) which declared that all other user charges, i.e. for pathological, radiological tests, ambulance charges and operation charges to be frozen on the rate prevailing on 31 December 2003.

If we look at the implications of these two GOs it will be obvious that the state revenue accruing from user charges will be hit very badly. A simple exercise can demonstrate it. To begin, let us look at the changes in the registration fee in PHCs and Govt. hospitals as shown in the table below:

Type of Fee	As on 28.6.2000	As on 30.12.2003 considering an increase of 10 per cent each year over 2000	With effect from 31.12.2003
Registration Fee			
PHC	Rs.2.00	Rs.5.00	Re.1.00
CHC	Rs.2.00	Rs.5.00	Re.1.00
Urban Hospital	Rs.5.00	Rs.8.00	Re.1.00
Admission Fee in urban hospital	Rs.25.00	Rs.33.00 (Approx.)	Re.1.00

This shows that per registration in the PHC and CHC the government is loosing Rs.4.00 each while the loss in an urban hospital is to the tune of Rs.7.00 per person. Although we do not have the exact number of these medical centres at present, nor do we have figures of the actual number of patients who visit these centres daily nor even annually we can still work out rough estimates by assuming the number of centres as constant even in 2005 and also presuming a tentative number of patients which visit each centre per day. These figures have been kept on the lower side and so the estimates are very conservative estimates.

Type of Centre	Number as in 2001	Average No. of patients per day per centre	Average number of patients per year (Assuming 275 working days)	Loss per Patient (Rs.)	Total Loss of Revenue (Rs.crore)
Registration:					
PHC	3551	25	24413125	4.00	9.77
CHC	287	50	3946250	4.00	1.58
Urban Hospital	8102	75	167103750	7.00	116.97

The above calculations show that the state government is loosing around Rs.128 crores of rupees every year due to reduction in registration fee from the rate prevailing in 2003 to Re.1.00. However, if we account for the fact that as per the GO of 2000 the

costs would have gone up by 10 per cent each year since then, the loss in 2005 would be to the tune of around Rs.167 crore. This is the loss from reduction in the registration fee alone. Besides this all user charges such as for pathological/radiological tests and operations for patients of general wards have also been frozen at the rate that was prevalent as per the GO dated 31.12.2003. The loss of revenue from this policy decision will also be very substantial.

The logic of the downward revision in fees and user charges in medical and health services is difficult to understand especially in the light of the fact that the GO issued in 2000 very categorically stated that no charges would be made from people living below the poverty line. Even destitutes, under trials and emergency cases were not required to pay any charges. The GO had been implemented smoothly for a full three year period and people had come to accept the upward revision. One must also keep in mind that in the case of outpatients the registration fee is valid for a full 15 days and along with the consultation from the doctor concerned the patient also receives free medicines. Even if you take cases of minor illness even then the average cost of medicines and some test which might have to be conducted involve a cost of at leas Rs.100/- per patient. So effectively he is getting services worth more than Rs.100/- for a mere rupee one. Therefore, the main beneficiaries of the amendment in the GOs in 2003 reducing user charges in medical services would be the richer sections who can afford to pay for these services.

In Table 16 we have compared the charges for some of the commonly carried out pathological and radiological tests in the Government hospitals with those being charged by a charitable institution, namely, Vivekanand Policlinic, Lucknow. The Polyclinic is being run by the Sri Ram Krishna Mission Sevashram Trust and the rates list is applicable for the general patients, from whom subsidised rates are charged. The extent to which the government rates are subsidized can be seen from the corresponding rates which have been fixed for those general patients who are undergoing treatment at the Vivekanand Polyclinic, Lucknow. While the rates for different blood tests ranges between Rs.6 to 10 in the hospitals run by the state Government, the Vivekanand Polyclinic is charging between Rs.25-105. Similarly wide variations can also be seen in the rates of radiological tests. It is important to note that the Vivekanand Polyclinic is not a profit making institution like other private nursing homes but is run by a highly prestigious charitable trust like the Swami Ram Krishna Mission which is running such hospitals in various cities in the country.

Table 16: **Comparison of User Charges in the State Government with those in Vivekanand Polyclinic, Lucknow**

(Rs.)

Sl. No.	Name of Test	Charges fixed by State Government: As on 28.6.2000	Charges fixed by State Government: As in 2005 after being frozen at the 2003 level	Charges for General subsidize patients in Vivekanand Polyclinic, Lucknow
1.	Blood Tests			
	(a) TLC/DLC	3.00	6.00	30.00
	(b) Total RBC count	5.00	8.00	25.00
	(c) Blood Sugar	5.00	8.00	75.00
	(d) Vidal test	10.00	13.00	105.00
	(e) Serum Belrubin	10.00	13.00	60.00
	(f) SGOT/SGPT	10.00	13.00	60.00
	(g) Serum cholesterol	10.00	13.00	60.00
2.	Urine test – Routine and Microscopic	3.00	6.00	30.00
3.	Stool test	5.00	8.00	30.00
4.	X-ray:			
	(a) Dental	5.00	8.00	100.00
	(b) Chest	30.00	40.00	100.00
	(c) Spine	30.00	40.00	100.00
5.	Ultra Sound	60.00	80.00	150.00
6.	CT Scan:			
	(a) Head	600.00	800.00	1000.00
	(b) Body	1000.00	1330.00	Ranges betweer 1500-3500

Source: Based on information supplied by Vivekanand Policinic and prevailing rates in government hospitals.

It is well known that the governmental hospitals particularly PHCs and CHCs are invariably faced with the problem of shortage of medicines. In many hospitals and PHCs doctors and other medical staff are not always available. This forces patients to go for treatment to private doctors or clinics. It is only when the people start contributing at least part of the cost that the state government will be able to generate greater revenue which can be used for providing better medical care facilities particularly in the rural areas. Not only the increases in revenue through increased user fees can augment the financing of under-financed recurrent inputs such as medicines and in improving the quality and effectiveness of the health services, user fees can bring about improvement in the equity of health system by charging from those who can afford to pay. Moreover, it is expected that higher user fees will divert demand to private providers. This will be beneficial since free government services can be utilized mainly for public health services.

It has already been pointed out that individuals are already paying for public and private health care facilities which are being provided to them. Even in the rural areas people are going to private doctors. Moreover, even the patients who go in for free treatment in the government

hospitals are paying money for some medical facilities such as pathological and radiological tests and operations. Thus, people are willing and able to pay for health care.

There is, thus, a strong case for raising user charges for public services both on efficiency and equity grounds. However, while working out a suitable policy for cost recovery the considerations of efficiency and equity along with national objectives and requirements are necessary. The government is and will remain the primary provider particularly in the rural areas. The medical services should be within the reach of the common man given the fact that in U.P. 31.2 per cent of the population was below poverty line. Hence, the extent to which user charges are raised should not be sudden and excessive.

IX. Towards a Comprehensive Social Health Insurance System

It is now being recognised globally that social health insurance system is the need of the hour to meet the goal of health for all. The present social insurance schemes in the country cover only the organised sector workers and the government employees, which hardly constitute less than ten per cent of the workforce. There is a need to extend these schemes to the unorganised sector workers and poorer sections of the society. A number of such community based efforts have been successfully launched in India as well as in other parts of the world.*

The Central as well as many state governments have also introduced some social health insurance schemes for certain weaker sections. A number of community based initiatives have also been taken up in different parts of the country in this field. Some of the well known health insurance schemes in operation are:

(a) **Yashswini scheme-**This was introduced in 2003 in Karnataka. Initially a premium of only Rs.5.00 per month was charged and within one year 1.7 million farmers became its members. In the second year another 2.2 million members joined the scheme. From 2005 the premium rate has been revised to Rs.10.00 per month. Thousands of people have already become beneficiaries under the scheme.

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*For details see

(1) Indrani Gupta & Mayur Trivedi, "Social Health Insurance Redefined: Health fo All Through Coverage For All," in *Economic and Political Weekly*, September 17, 2005;

(2) Akash Acharya & M. Kent Ranson," Health Care Financing of the Poor: Community-Based Health Insurance in Gujarat," in *Economic and Political Weekly*, September 17, 2005;

(3) Rajeevv Ahuja & Alka Narang," Emerging Trends in Health Insurance for Low Income group," in *Economic and Political Weekly*, September 17, 2005;

(4) A.S. Preker & Guy Carrin (eds), *Health Financing for Poor People*, The World Bank, Washington, 2004.

(b) **Scheme by Mayur Milk Co-operative** (Karnataka)– It covers a population of 7000 and the scheme provides preventive ad curative health care (outpatients and inpatients) to all eligible community members. All members have to enrol in the scheme. The income from the endowment fund covers all expenses.

© **Ambikapur Health Association** (Orissa) – It provides free out-patients care and limited hospitalisation to around 75,000 individuals enrolled on a voluntary basis. Proper screening is conducted at the time of enrolment to ensure that only eligible persons are selected.

(d) **Sevagram Scheme** (Maharashtra)– Provides free primary care, drugs, referrals and hospitalisation for non-chronic condition to a population of 14000 spread over 12 villages. Sliding scale premiums are employed to promote equity.

(e) **Meloj Milk Cooperative (**Gujarat)–Out-patients consultation, discounted drugs and diagnostic services are provided by the Agha Khan Health services. Enrolment is mandatory for all the members of the cooperative.

Brief details of the selected community health insurance schemes are given in Appendix B.

X. Recommendations

In the light of the earlier discussion the following recommendations are made for rationalisation of user charges in the medical and health sector:

(1) The upward revision of the user charges in public health institutions done through the GO dated 28^{th} June 2000 was eminently rational and reasonable and it had kept the interest of the poor people in mind. Therefore, the registration rates and the user charges which prevailed in 2003 must be restored. From the next financial year the policy of raising user charges by 10 per cent annually as laid down in June 2000 GO should be introduced keeping in mind the cost escalation in the cost of services and salary of personnel. The rates may be reconsidered in detail every five year in the light of the changing circumstances.

(2) The GO dated 28 June 2000 clearly states that only those who are living below poverty line should have access to free medical services whether as out patients or in patients. This rule must be followed very strictly otherwise the very purpose of subsidising health services will be defeated.

(3) If the increase in user charges is to be made acceptable to the general public it is of utmost importance that the quality of health services being provided should visibly improve. This means that PHCs and CHCs should have proper staff, should have sufficient and regular supply of medicines and that the facilities of labs for the conduct of

pathological and other tests must be available. For this the revenue generated through user charges can be effectively utilized. Once the PHC and CHC are providing quality health care services the exodus to the district hospital will automatically be curtailed and the hospital will then be used mainly for the treatment of serious cases referred to it from the PHC or the CHC. There should be shift in government expenditure in favour of PHC and CHCs, which is more equitably shared by people.

(4) It is recommended that in the PHCs where doctors are not willing/available to work full time, public health professionals may be appointed who will be trained to comprehend the backward and forward linkages between prevention and mitigation of illness. If even public health professionals are not available then the PHC could be headed by a fully trained nurse clinician.

(5) Public private partinership models can also be tried in the case of health sector. Private practitioners should be involved in running PHCs on mutually agreed terms. The fees charged by them may be regulated by the government and shared with them. Even NGOs can be involved in managing and running rural health systems on experimental basis.

(6) Management of PHCs and CHCs should be brought under effective control of the PRIs, so that they are effectively supervised at the local level and become accountable and responsible to the local people rather than the higher authorities.

(7) The government should seriously consider the introduction of a scheme of a comprehensive social health insurance for citizens of the state. All households who contribute a specified amount towards health insurance, should be entitled to free/subsidised treatment in the government hospitals. The beginning can be made with government offices and quasi-government offices taking the lead to begin with and subsequently it can be extended to the private sector. Panchayats can be made responsible for running the social health insurance scheme at the village level. Even a modest collection of Rs. 10 per month per household and yield a sum of about Rs. 500 crores annually for running the scheme. For richer people higher rates of contribution can be prescribed. Apart from government hospitals and dispensaries, members of the scheme should be entitled to treatment by recognised private doctors and private clinics who can be reimbursed for their services. In case of destitutes and very poor people government may issue health vouchers to avail benefit of the scheme.

Background Paper

on

Rationalization of User Charges and Fees in Educational Institutions

For Commission on Resources and Expenditure
U.P. Government

by

Mohammad Muzammil
Professor of Economics
Lucknow University
(Consultant)

Giri Institute of Development Studies
Sector O, Aliganj Housing Scheme
Lucknow 226 024

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Rationalization of User Charges and Fees In Educational Institutions

I. The Background

1. Under the impact of the economic reform in Uttar Pradesh (UP), the economy of the state has obliged the state government to slow down the increases in the allocation of public resources for education. As a result education sector is likely to develop only slowly while the demand for education at all levels is growing very fast. A large part of it goes unmet. Keeping in view the large influx of students in higher classes the Government of UP has ordered to increase the seats in graduate classes by 25 percent for the session 2005-06 in universities and colleges in the state. In this setting, the attention is now focused on finding alternative sources of finance for meeting the increased demand for education. One of the alternatives is to mobilize private household resources through higher user charges in education.

II. The Education System

2. UP is the biggest populated state of India and also has the distinction of having the largest education sector in the country. The system of school education in the state of UP comprises primary, junior and secondary levels. The largest network of schools is of primary/junior basic type only with classes I to V. Junior/ junior high/middle/senior basic schools go up to class VIII and usually incorporate primary classes as well. In such a school, classes I to V are referred to as primary section and classes VI to VIII as the junior section. Secondary schools go up to class XII and usually incorporate a junior section but not necessarily a primary section. School education (primary + secondary) consumes about 90 percent of the education budget of UP

3. Higher education comprises of three Central Universities, 12 State Universities, eight deemed universities, 945 Colleges. It hires the services of more than 14,500 teachers and has more than 11 lakh students on rolls. (GOUP: 2003-2004, p.42) It, however, accounts for less than 8 percent of the state's education budget.

III. Primary Education

4. Primary education in UP consists of two levels: Lower primary, class I to Class V and Upper Primary Class VI to Class VIII. There are in the state 1,29,976 Lower Primary Schools and 36,874 Upper Primary Schools. Whereas lower primary schools offer co-education, the ratio of female schools at the upper primary level is only 15 percent. Students at lower primary stage are 2,61,39,380 of which 46.7 percent are girls. In upper primary, the number of students is

93,29,430 of which 43.9 percent are girls. Primary education hires the services of 2,83,287 teachers in lower primary schools and 84,125 in upper primary schools. (*Shiksha ki Pragati* 2004-05)

IV. Secondary Education

5. The secondary education is a very big public enterprise in UP. In 2004-05, there were 12,766 secondary schools, 1,37,902 teachers (of which 21.6 percent were females) and nothing less than 67,64,358 students on roll. The annual budget is about 2312 crores which accounts for more than 32 percent of the total educational budget of the state of Uttar Pradesh.

6. The secondary education in UP is highly subsidized by the government and the reason is that there are special programmes for different categories of people and that entails more expenditure by the government not only in the interest of education but also in a way to ensure social justice and welfare of the downtrodden classes of the society.

V. Higher Education

7. Besides 12 state universities, three central universities, two agricultural universities and one Open University, there are 12 deemed universities in UP. Of these deemed universities, only one is on the grants in aid list of the government of UP. As in 2003, of the 946 Colleges of higher education, 111 are government colleges and the remaining 834 are non-government colleges. Out of these 834 non-government (private) colleges only 345 are on the grants in aid list of the government and the remaining 489 are self-financing colleges (GOUP: 2003-2004, pp. 42-43). The recent trend is that the government is giving *Vitta Vihin Manyata* (recognition without financial obligation) and the new colleges that are coming up in the state of UP are in the private sector and do not receive any type of grant from the government.

8. There are some priorities for opening girls' colleges in unserved areas and in these cases provisions do exist for some lump sum grant. This is a device to attract private entrepreneurship in higher education in remote and unserved areas of the state.

VI. Sources of Funds and Budgetary Allocations

9. There exists a multi-source financial mechanism for school education in UP. These include both public and private sources. There is also some external funding from the international agencies but their contribution is very small. It caters to only specific projects. In general, the heavy reliance is on the financing by the state government, as the role of the central government in school education funding in states is very limited. The role of voluntary private sources is also very inadequate and its significance has declined rapidly over time.

10. The Department of Education, Government of Uttar Pradesh, is responsible for preparing the state budget for education. With respect to preparation of budget for different levels of education, it has been found that the process of budgetary allotments of funds is not based on sound budgetary principles. It is solely guided by the prevailing administrative budgetary principles, existing financial commitments of Education Department and instructions from the Central and State governments. An overwhelming portion of the total resources is allocated in the form of grants to privately managed educational institutions. No scientific criteria are applied for allotment of funds to different levels of education. Instead, allocation of resources to education and its inter-sectoral distribution appears to the accomplished under political pulls and pressures.

11. Of the two budgetary accounts of expenditure, revenue and capital, the latter is of negligible significance. Revenue expenditure, in turn is classified into plan and non-plan categories in accordance with the by now standard practice of transferring to the non-plan side of plan expenditure over the course of Five Year Plans.

12. The Performance Guide (*Karyapurti Digdarshak*) of the budget for education is also prepared by the Department of Education For the non-plan expenditure on education, variations in salaries and allowances and maintenance and office expenses explain almost the whole exercise of allotment. Such being the routine work on the non-plan side, on the plan side of expenditure for different levels of education, the allotments are decided by the need to launch new plan programmes and expansion of existing schemes.

VII. The Funding Capacity

13. The state's capacity to spend on education, or for that matter on any head of development, is determined by the State Domestic Product (SDP) and the revenues of the state budget. As shown in Table 1 the state government's expenditure on education for all levels has gone down from 4.23 percent of the SDP in 1990-91 to 3.25 percent of SDP in 2005-06.

Table 1
Expenditure on Education as a Ratio of State Domestic Product

Year	Ratio in percent
1990-91	4.23
1995-96	3.28
1998-99	3.82
2002-03	3.8
2003-04	2.9
2005-06	3.25*

Source: Calculated on the basis of State Budget data and State income data.
* Calculated on the basis of BE of Educational Expenditure and the projected SDP for 2005-06.

14. The major amount of budgetary allocation in secondary and higher education goes in the form of grants in aid to finance the privately managed aided educational institutions. On the other hand, private unaided institutions raise their resources mainly through fees and other charges from students. In view of the public resource crunch, the state government is encouraging privatization of education in the state.

VIII. Aggregate Educational Expenditure

15. During the 1990s educational expenditure in UP has been to the tune of roughly one-fifth of the total state budget. Since 2000-01 there has been a declining trend in the share of educational expenditure in total budgetary expenditure (Table 2). The ratio went down from around 19.6% in 2000-01 to 15.3% in 2004-05, but shows an improvement in 2005-06 budget.

Table 2
Educational and Total Budgetary Expenditure (Revenue Account)

(Rs. Crore)

Year	Educational Expenditure	Total Budgetary expenditure	(2) as % of (3)
(1)	(2)	(3)	(4)
1990-91	2093.81	9538.36	21.95
1995-96	3360.92	17555.86	19.14
1997-98	4156.85	22195.03	18.73
1998-99	5840.15	27465.89	21.26
2000-01	6090.86	31032.61	19.63
2001-02	6018.15	31779.71	18.94
2003-04	6254.58	37943.72	16.48
2004-05 (RE)	7538.82	45622.16	16.52
2004-05 (BE)	6544.26	42785.71	15.30
2005-06 (BE)	8588.62	48071.08	17.87

Source: State budget documents.

16. The fall in the share of educational expenditure in total budgetary expenditure witnessed in recent years is a matter of deep concern. This can be interpreted as the effect of new economic policy being implemented in the country since the early nineties and the deteriorating fiscal situation of the state government. The new policy aims at reducing the size of public expenditure and relying more on private support. It also tries to enhance the contribution from students in the form of user charges.

IX. Expenditure by Levels of Education

17. The allocation of funds for education in UP over the plan period for primary and secondary levels has shown an increasing trend. There has been massive increase in the school

educational expenditure. In 1980-81 the respective expenditure levels were Rs 171.45 crore and Rs 109.72 crore. By 1990-91, the expenditure jumped to Rs 1211.68 crore and Rs 629.33 crore for elementary and secondary education respectively. The budget allocation for primary education went up to Rs 3718.00 crores and that for secondary education to Rs 1644.10 crore in 2001-02. The budget estimate for 2005-2006 allocated Rs. 4991.17 crore to primary education and Rs. 2351.94 crore to secondary education (Table 3).

Table 3
Public Expenditure on School Education

(Rs crore)

Year	Elementary Education	Secondary Education	Higher Education	Others*	Total Educational Expenditure
1	2	3	4	5	6
1990-91	1211.68	629.33	164.17	88.63	2093.81
1995-96	1863.00	1110.02	243.96	143.94	3360.92
1997-98	2269.95	1375.84	329.65	181.41	4156.85
1998-99	3318.70	1855.41	391.28	274.76	5840.15
1999-00	3165.33	1787.12	528.53	204.19	5685.17
2000-01	3625.11	1781.60	518.02	166.13	6090.86
2001-02	3758.80	1644.15	475.90	139.30	6018.15
2002-03	3458.96	1977.68	447.35	134.46	6018.45
2003-04	3545.44	1973.09	494.45	93.37	6106.35
2004-05 RE	4284.91	2312.32	614.78	127.12	7339.13
2005-06 BE	4991.17	2351.94	567.05	430.02	8340.18

Source: State Budget.
* Other expenditures include the heads 2203 (Technical education), 2204 (Sports and Youth Welfare) and 2205 (Arts and Culture).

18. The share of different levels of education in total expenditure on education has been shown in Table 4.

Table 4
Share of Different Levels of Education in Educational Expenditure (Percentages)

Year	Elementary Education	Secondary Education	School Education	Higher & Others	Total Education Expenditure
1990-91	57.87	30.06	87.93	12.07	100
1995-96	55.43	33.03	88.46	11.54	100
1997-98	54.61	33.1	87.71	12.29	100
1998-99	56.83	31.77	88.60	11.4	100
1999-00	54.59	31.11	85.70	14.3	100
2001-02	62.94	27.83	90.77	9.23	100
2003-04	58.06	32.31	90.37	9.63	100
2004-05 RE	58.38	31.51	89.89	10.11	100
2005-06 BE	59.84	28.2	88.04	11.96	100

Source: computed from State Budget documents.

19. The ratio of elementary education went up from about 58 percent in 1990-91 to 60 percent in 2005-06 (BE) and that of secondary education came down from about 30 percent to 28 percent over the same period. The share of higher education has ranged between 9 and 12 percent. On the whole, it appears that there has virtually been no change in the relative share of school expenditure in the total educational budget of the state of UP since 1990-91. The educational needs have been rising due to rapidly increasing enrollments but the relative share of education budget is almost stagnant. In fact there is an inherent tendency of decline as mentioned earlier.

X. Composition of Expenditure

20. Composition of educational expenditure at different levels for 2003-2004 and 2005-06 BE has been shown in Table 5.

Table 5
Composition of Educational Expenditure at Different Levels (Rs. Lakhs)

Item	Elementary Education		Secondary Education		Higher Education	
	2003-04	2005-06 (B.E	2003-04	2005-06 (B.E)	2003-04	2005-06 (B.E
Direction and administration	1098.89	1393.15	1046.29	1142.36	335.40	374.72
Inspection	3132.36	4441.76	999.76	2098.84	--	--
Teacher training	1109.38	--	--	--	--	--
Scholarships	86.27	71.62	81.53	154.94	5.89	5.05
Examination	--	--	6576.50	11988.56	--	--
Govt. Primary/ Secondary Schools/ Colleges	868.50	973.80	16892.57	17745.10	4127.15	5091.68
Grant to Universities	--	--	--	--	6876.17	7947.22
Grant to private aided Institutions	347456.80 (98.0 %)	491167.08 (98.4 %)	166092.18 (84.2 %)	173402.59 (73.7 %)	38020.64 (76.9 %)	43202.87 (76.2 %)
Other expenses	791.48	1070.00	768.24	24415.62	79.56	83.83
Language Development	--	--	3851.65	4245.96	--	--
Total	354543.72	499117.41	197308.72	235193.97	49444.81	56705.37

Source: Compiled from State Budget documents.

21. The table reveals that the most important head of expenditure is the grants in aid given to the private unaided schools. Grants in aid account for more than three fourth at higher education, more than four fifth at secondary level of education and as much as 98 percent at the elementary education. The respective ratios for different heads of expenditure hold good for almost all the years. Not much divergence is visible in the composition if a year wise analysis is attempted for a longer period. Trends and relative values of various heads remain almost the same.

XI. Plan and Non Plan Expenditure

22. Budgetary expenditure is classified into two categories: Plan and Non Plan Expenditures. Plan expenditure accounts for addition or creation of something new, while non-plan expenditure takes care of the maintenance part of what has already been created or established. Declining plan expenditure means declining effort for creation or addition of new educational facilities and swelling

non-plan expenditure denotes increasing burden of maintenance expenditure on the shoulder of the state government.

23. As shown in Table 6 non-plan expenditure constitutes an overwhelming proportion of total educational expenditure. Its ratio has exceeded 90 percent in most of the years. Plan expenditure accounted for a very small part of total expenditure except during the last two years. This rise was mainly due to the large flow of resources from the Centre for elementary education under the plan head.

Table 6

Plan and Non Plan Revenue Expenditure on Aggregate General Education

Year	Total of Grants under 71,72 & 73 (Rs. Lakhs)			Percentage Share		
	Plan	Non Plan	Total	Plan	Non-Plan	Total
1990-91	12916.16	187602.12	200518.28	6.4	93.6	100.0
1995-96	31557.70	290140.61	321698.31	9.8	90.2	100.0
2000-01	49309.02	537261.81	586570.83	8.4	91.6	100.0
2001-02	49001.77	534380.03	583381.80	8.4	91.6	100.0
2002-03	27124.50	556491.58	583616.08	4.6	95.4	100.0
2003-04	21465.94	579831.31	601297.25	3.6	96.4	100.0
2004-05 (RE)	96280.79	624920.48	721201.27	13.4*	86.6	100.0
2005-06 (BE)	128531.67	662485.08	791016.75	16.2*	83.8	100.0

Source: Calculated from State Budget documents.

24. The ratio of plan and non-plan expenditure in school education at the elementary level is shown in Table 7. There is an increasing trend in plan expenditure at elementary level of education as a ratio of the total expenditure on this head. Most of the plan expenditure on elementary education in recent years has been in the form of centrally sponsored allocation or receipt of foreign assistance for programmes like EFA and DPEP which are shown as plan expenditure. Expansion and development of elementary education, particularly over the decade of 1990s has been mainly through the central intervention projects like Education for All (EFA) scheme, District Primary Education Programme (DPEP), Operation Blackboard (OB), non formal education (NFE) and Mid Day Meal (MDM) schemes.

Table 7

Plan and Non Plan Revenue Expenditure on Elementary Education

Year	Basic (Grant 71) Rs. Lakhs			Percentages		
	Plan	Non Plan	Total	Plan	Non-Plan	Total
1990-91	10093.40	111074.71	121168.11	8.3	91.7	100.0
1995-96	23934.33	162365.46	186299.79	12.8	87.2	100.0
2000-01	41085.23	315793.50	356878.73	11.5	88.5	100.0
2001-02	38584.94	333216.69	371801.63	10.4	89.6	100.0
2002-03	22867.14	318590.57	341457.71	6.7	93.3	100.0
2003-04	18203.77	336339.95	354543.72	5.1	94.9	100.0
2004-05 (RE)	62226.17	366264.88	428491.05	14.5*	85.5	100.0
2005-06 (BE)	96907.37	402210.04	499117.41	19.4*	80.6	100.0

Source: Calculated from State Budget documents.

25. The share of plan expenditure in case of secondary education has gone up from about 3 percent in 1990-91 to about 12 percent in 2005-06 (Table 8).

Table 8

Plan and Non Plan Revenue Expenditure on Secondary Education

Year	Secondary (Grant 72) Rs. Lakhs			Percentages		
	Plan	Non Plan	Total	Plan	Non-Plan	Total
1990-91	1798.29	61135.00	62933.29	2.9	97.1	100.0
1995-96	6772.23	104230.14	111002.37	6.1	93.9	100.0
2000-01	6750.83	171408.95	178159.78	3.8	96.2	100.0
2001-02	7702.38	156712.34	164414.72	4.7	95.3	100.0
2002-03	3709.86	194058.40	197768.26	1.9	98.1	100.0
2003-04	2676.66	194632.06	197308.72	1.4	98.6	100.0
2004-05 (RE)	26272.67	204958.95	231231.62	11.4	88.6	100.0
2005-06 (BE)	27963.15	207230.82	235193.97	11.9	88.1	100.0

Source: Calculated from State Budget documents.

XII. Higher Education Expenditure

26. Budgetary expenditure on higher education has grown very slowly whereas the demand for higher education has gone up very fast. With increasing enrollments in secondary education owing to approaching universalisation in elementary education and high pass percentage in secondary school examination results, the pressure of students in higher education is bound to increase. The budgetary allocation to higher education in UP is given in Table 9.

Table 9
Public Expenditure on Higher Education

Year	Amount of Expenditure (in Rs. Crores)	Percentage to total State education Budget
1990-91	164.17	7.8
1995-96	243.96	7.3
1997-98	329.64	7.9
1998-99	391.28	6.9
1999-00	528.53	9.3
2000-01	518.02	8.5
2001-02	471.65	7.8
2002-03	494.38	7.8
2003-04	494.45	7.7
2004-05RE	614.78	8.4
2005-06BE	567.05	6.8

Source: GOUP, Annual Budget, Item wise Expenditure.

27. Resource constraints to higher education are visible from the table given above. The constraints manifest themselves in many ways. The following points are worth noting in this regard. The share of higher education in the state's total education budget has been under 8

percent in general. For the year 2005-06, the ratio of budgeted expenditure on higher education as percent of total education (6.8 percent) is the lowest for any year in the past. The school expenditure claims have crowded out the higher education allocation without developing any alternative mechanism of making the higher educational institutions financially self-sustaining. The rate of increase in educational expenditure at the higher level has been too slow to keep pace with the requirements of quantitative expansion and qualitative improvement. The political economy factors and group pressures have often played more decisive role than the legitimate economic and financial arguments (see Kingdon and Muzammil: 2001 and 2003)

28. Break-up of expenditure on higher education between plan and non plan expenditures is given in Table 10. For most of years the ratio of plan expenditure on higher education to total expenditure on higher education has been under 6 percent. The ratio of plan expenditure went up to 12.7 percent in 2004-05. It is pegged at 6.5% in BE for 2005-06.

Table 10

Plan and Non Plan Revenue expenditure on Higher Education

Year	Higher (Grant 73) Rs. Lakhs			Percentages		
	Plan	Non Plan	Total	Plan	Non-Plan	Total
1990-91	1024.47	15392.41	16416.88	6.2	93.8	100.0
1995-96	851.14	23545.01	24396.15	3.5	96.5	100.0
2000-01	1466.96	50059.36	51526.32	2.8	97.2	100.0
2001-02	2714.45	44451.00	47165.45	5.8	94.2	100.0
2002-03	547.50	43842.56	44390.06	1.2	98.8	100.0
2003-04	585.51	48859.30	49444.81	1.2	98.8	100.0
2004-05 (RE)	7781.95	53696.65	61478.60	12.7	87.3	100.0
2005-06 (BE)	3661.15	53044.22	56705.37	6.5	93.5	100.0

Source: GOUP, Annual Budget, Item wise Expenditure.

XIII. Education Fee structure

29. According to the State Government documents, school education in UP is provided almost free of cost up to class XII. The state provides subsidy by reimbursing tuition fees to school and colleges. In primary and upper primary school, a token fee is charged in the name of *Vikas Abhidan* for the maintenance of the school. The rate of this fee (Vikas Abhidan) is rupee one per month per student in classes II to V and rupees two per month per student in classes VI to VIII. All SC/ST, students and ten percent of the weaker section students are exempted from these token charges.

30. School fees in UP are classified into two categories: maintenance grants and poor boys funds. The same rates of fee had been enforced for the last thirty years, which is responsible for the stagnation in the collection of the amount of fees.

31. In case of private aided schools, the managers are required to deposit about 80-85 percent of the fee collected under the maintenance fund in the state government head in treasuries. But in case of government schools, the principals/head masters deposit the whole amount of money collected under the maintenance head in government treasuries. Private aided school retain about 20-15 percent of the fee charged for school maintenance while government school received funds from government for maintenance of school building and other activities separately. Fees collected under poor boys fund are kept in separate account and normally operated and maintained by the head master/principal in both private aided and government schools.

32. While there is no tuition fee in primary and secondary education, the schools charge nominal amounts in other names. Still the average per month fee comes to Rs. 20 in classes XI-XII and much lower for classes IX-X and VI-VIII.

Table 11
Educational Fee Structure in UP

Type of Fee	Classes			
	XI-XII	IX-X	VI-VIII	Periodicity
1. Tuition fee	-	-	-	-
2. Re- admission	1.00	1.00	1.00	-
3. School register	1.00	1.00	1.00	-
4. Late / Fine	0.10	0.10	0.10	per day
5. Development	8.00	5.00	2.00	per month
6. Science	3.00	1.50	1.30	per annum
7. Fan	1.50	1.50	1.50	per month
8. Art	0.00	0.00	0.50	per month
9. Music	1.00	1.00	1.00	per month
10. Reading room	8.00	8.00	4.00	per annum
11. Magazines	5.00	5.00	3.00	per annum
12. Audio-visual	0.50	0.50	0.50	per month
13. Games	3.00	2.00	2.00	per month
14. Red cross	0.20	0.20	0.10	per month
15. Scouts & Guides	0.00	0.00	0.30	per month
16. Home exam.	8.00	8.00	5.00	per exam
17. Progress Report	1.00	1.00	1.00	per annum
18. Refreshment	0.50	0.30	0.30	per month
19. Medical	0.30	0.30	0.30	
20. Poor boys fund	0.10	0.10	0.10	per month

Source: Tyagi and Shardindu 1999. See Muzammil (2001a)

33. Fees comprise not only the 'price' for imparting education but other elements as well. A typical lay out of fees will include items as enrollment fee, admission fee, re-admission fee, tuition fee, dearness allowance fee, development fee, hostel fee, hostel deposit fee, deposit fee

(misc.), science lab fee, computer fee examination fee, mark-sheet / degree fee, transfer / migration fee, I card fee, library / reading room fee, educational tour / excursion fee, games fee, students union fee, poor boys fund fee, radio / TV fee, ink fee, electricity fee, fan fee, late payment fee, fines, and other fee etc. Structure of fees charged in the schools in U.P. is shown in Table 11.

34. Fee structure differs at various stages of school education in UP. Despite school education being a free service, the rates of fee are not insignificant for the payers. Neither lower primary nor upper primary is free of charge in true sense of the word. The Sixth All India Education Survey has made a mention of this fact in its report. The amount of money charged annually at different levels of school education in UP from students is given in Table 12.

Table 12
Fee Structure from Primary to Higher Secondary Level

Stage of education	Amount Charged	Remarks
Lower Primary Stage	12	Games Fee 2 Other/Development Fund 10
Upper Primary Stage	24	Library fee 2, Games Fee 2, Other Development Fund 20
Secondary Stage	51	Library Fee 8, Lab fee 18, Games fee 4, Student Welfare fund 1, Other development fund 20
Higher secondary Stage	71	Library fee 8, Games Fee 6, Student Welfare fund 1, Other development Fund 20, Lab Fee 36

Source: *Sixth All India Education Survey, Main Report*, NCERT, New Delhi.

XIV. Fee Rates and Teachers' Salary

35. In UP government-prescribed fee rates are not indexed to inflation or cost of education. For instance, in 1975, under the UP Recognized Basic Education Rules (which came into force with immediate effect in 1975) the fee rate in primary education was fixed at Rs. 15 per month for private unaided schools. This meant that a class of 40 students would have given total fee revenue of Rs 600, which in turn would have been be a decent salary for a teacher in that year. But the rate remains the same after about 25 years (in fact, education has been declared free since 1990) and around the year 1995, a primary teacher's salary would have been around Rs 4000 per month whereas the monthly fee revenue would be only Rs 600 at the previous fee rate which remained un-revised.

36. On the basis of the consumer price index (CPI), Rs 15 in 1975 was equivalent to a value of Rs 156 in 1995-96. If we assume that the fee had been raised with inflation to keep its real value constant, it would give a monthly fee income of Rs (40 x 156 =) 6240 in 1995-96. This

simple calculation reveals that fee rates in UP do not take inflation into account which, in turn, does not allow enough fee revenue to be generated to enable the private unaided schools to pay for the salary of teachers out of the fee income.

XV. Contribution of Fees to State Budget

37. Viewed as a technique of educational finance, fees may constitute the most important private source of finance for education. However, the contribution from this source has been declining over time. Only in recent years permission has been given to higher educational institutions to devise their own structure of fee. The contribution of fees at the primary level and secondary level is nil and even at higher level of education the contribution of fees is small.

38. In 1990-91 the collection of revenue through fees stood at a paltry Rs 33.90 crores. Fees collection amounted to only 1.6 percent of the total educational expenditure of the state. As Table 13 reveals that the contribution from educational fee could never reach even 2.5 percent mark of the total educational expenditure in any year. In 1997-98, fee contributed Rs 95.89 crores, which represented 2.3 percent of the total educational expenditure of that year, which is the highest relative contribution ever reached. In 2002-2003, fee contributed Rs 255.35 crores, which is the highest absolute amount, but its relative contribution was still only about 4 percent. Over the last three years again the relative contribution of fees has come down to a level of less than one percent.

Table 13
Educational Fees and Educational Expenditures in UP

(Rs Crores)

Year	Revenue from education fees	Educational expenditure	(2) as % of (3)
(1)	(2)	(3)	(4)
1990-91	33.90	2093.81	1.62
1995-96	53.35	3360.92	1.59
1997-98	95.89	4156.85	2.31
1998-99	101.34	5840.15	1.74
2002-03	255.35	6226,80	4.10
2003-04	227.68	6254.58	3.64
2004-05 BE	55.82	6544.26	0.85
2004-05 RE	57.23	7538.82	0.76
2005-06 BE	63.70	8588.62	0.74

Source: Compiled from State Budget documents.

39. A look at the long term data would reveal that in the decade of 1980s, estimates were repeatedly higher and actual collection much less but in the decade of 1990s the trend changed, the actual collection exceeded the original budget estimates and some times even the revised estimates (Table 14). It appears that of late there is growing concern on the part of the state

government to collect more revenue from educational fees for the state exchequer. In 1998-99 the budget estimates for fees collection was Rs 46.24 crores, which was revised to Rs 90.93 crores, and ultimately the actual collection was to the time of Rs 101.34 crores. This is an indication of revival of emphasis on fees as a source of revenue to state government.

Table 14
Revenue from Educational Fee to the State Government

(Rs Crores)

Year	Actuals	Revised Estimates	Budget estimates
1990-91	33.90	29.48	31.32
1991-92	34.73	29.66	31.32
1992-93	55.92	44.70	31.95
1993-94	29.94	43.85	45.24
1994-95	..	46.67	46.69
1995-96	53.35	...	47.49
1996-97	34.47	111.42	..
1997-98	95.89	40.76	71.41
1998-99	101.34	90.93	46.24
1999-2000	..	125.25	86.40
2003-2004	227.68	149.73	160.02
2004-05	..	57.23	55.82
2005-06	..	..	63.70

Source: Compiled from the state budget

Note: The revenue from educational fees under the head 0202 (as given above) apart from the item wise receipts of fee from elementary, secondary and higher education, also includes examination fees of the board, sale of Govt. Books, share of grants from UGC, Technical Education, Sports and Youth Services, Arts and Culture etc.

40. Item wise receipts from fees for various levels of education are given in Table 15, which brings out the very meager contribution of educational fees at elementary, secondary and higher levels of education.

Table 15
Contribution Of Fees At Different Levels Of Education (Rs Crores)

Year	Primary	Secondary	Higher	Others	TOTAL
2004-05 BE	2.60	38.70	2.15	12.37	55.82
2004-05RE	2.60	43.65	2.15	8.83	57.23
2005-06BE	2.66	48.96	3.16	8.92	63.70

Source: State Budgets

XVI. The System of Grants in Aid

41. The school grants in aid system in UP is a legacy of the British rule and it continues to remain today without much change in the mechanism of allocation of the grants to educational institutions.

42. The present combination of grants in aid to education is based on a provision of two types of grants - recurring and non-recurring. Though these grants are technically conditioned upon the maintenance of certain academic and administrative standards, in reality the manager of the school concerned, who enjoys political power and patronage, has no difficulty in proving and establishing the claim of the school for grant from the state government. Some of the conditions are easy to fulfill while others are easy to be flouted in one way or the other. This is the reason that grants in aid system of school education in UP leaves much to be desired.

Non-recurring Grants

43. Non-recurring grants are provided to educational institutions as a lump sum provision to the institution and there is no specification as to the purpose for which this grant can be used. Several conditions have been laid down by the Education Department notification issued in 1996 to regulate non-recurring grants (for details see Muzammil, 2004). With regard to the maximum amount of non recurring grant, no attempt was made to allow for inflation proofing for maintaining the real value of the nominal sum stipulated. It shows the irrationality of this provision, as the amount has been fixed in nominal terms for all time.

Recurring Grants

44. The State government last announced the provisions relating to the regulation of recurring grants in 1992. These determine the conditions, which are required to be fulfilled by any educational institution on the grants-in-aid list of the government. The Government Order of 1992 also simplifies the procedure for recurring grants. The GO states that the state government had been bringing on grants-in-aid list the recognized unaided institutions as per institution's requirements and many conditions earlier laid down for this purpose were not well defined. The institutions did not pay adequate attention to qualitative improvements because they were brought on to the grant-in-aid list on the basis of their date of recognition (in chronological order) rather than on the basis of merit. Therefore, the GO says that norms should be framed which give due weight to "seniority" and "quality" so that the educational institutions are encouraged to improve and maintain quality. Several specific conditions need to be fulfilled in order that a secondary institution (high school/inter college) is brought on to the grants-in-aid list (for details see Muzammil, 2004)

45. Despite laboriously made rules and conditions, the system of grants-in-aid in UP is not at all linked with the qualitative performance of schools. Even when the criterion of examination performance of the schools was included, the pass rate was fixed at a paltry 45 percent. The same is true with regard to the number of working days. On the whole the system still leaves much to be desired. It should not be surprising because in practice, political maneuvers

overruled the 'strict provision' laid down by the state Government to sanction and regulate recurring grants and non-recurring grants.

46. In this connection, the following observation of Rudolph and Rudolph with regard to flouting the conditions of grants-in-aid still holds good: "these grants in aid are technically conditioned upon the maintenance of certain academic and administrative standards, but in reality an educational entrepreneur who enjoys political favour has little difficulty in establishing his institution's qualification" (for details see Kingdon and Muzammil, 2003)

47. A modified grant structure is desirable which would link grant levels to quality education. The British and the Japanese experience have much to offer to a state like UP in this regard. Grants for school education need to be linked with quality in order that they ensure better or at least commensurate educational performance. A restructuring of the school education grants system is required.

XVII. The Role of Central Government

48. Apart from the two centrally financed specific schemes at secondary level of education, namely, the central schools and Navodaya Vidyalayas, the Central Government provides funds to the state government for the following schemes:

1. Primary Education
   a. Central plan schemes
   b. Centrally sponsored schemes
   c. Special component plan of scheduled castes

2. Secondary Education
   a. Central plan schemes
   b. Centrally sponsored schemes
   c. Special component plan of scheduled castes

3. Higher Education
   a. Grants from the University Grants Commission
   b. Grants from the CSIR, ICSSR etc.

49. The central government also helps the government of UP in accordance with the recommendation of the Finance Commission appointed from time to time for up-gradation of education in districts where literacy rate is low. These are shown in the budget of UP as plan grants. The Twelfth Finance Commission has given hefty grants for promotion of education to the state on fulfilling some conditionalities.

50. The Central Government through the Planning Commission, the Ministry Human Resource Development and the University Grants Commission has been impressing upon the

state government to rationalize fees, particularly in higher education with a view to mobilize the required amount of revenue for educational development in the state.

XVIII. Relative Roles Of Public And Private Finance

51. Public sources of finance include (a) grants from the Central Government (b) grants from the State Government, and (c) financial support from the different tiers of the Punchayati Raj system in the State. Of these only State Government's role is substantial in financing of education in the State. Private sources of finance may be classified into: (a) fees and other maintenance costs paid by the students, (b) philanthropic contributions in the form of 'endowments', (c) other sources which relate to fines, special levies imposed on students and ad-hoc collections etc.

52. The contribution from the state government at all levels of education has increased substantially and consistently. Government support, however, is relatively larger at the elementary level of education and less at the higher level. By the same token private sources of finance play very insignificant role at the elementary level and gain relative importance at the higher level. There is a general declining trend in the relative contribution of fees. This shows that the private cost of attaining education has been declining causing the state government to bear increasingly larger share.

53. Funds from local bodies constituted a significant part of the total educational finance at the primary level in the past. After the enactment of *Basic Shiksha Adhiniyam* 1972 the contribution of local bodies has declined. Contribution from endowments and other sources has tended to decline for all levels of education. On the whole, it may be concluded that the public financing of education encompasses virtually the entire range of educational structure.

XIX. Role of User Charges in Education

54. Education sector in the state, as in the country as a whole, is faced with a serious financial crisis, which gives rise to several other constraints and problems. In most of the cases, the prevailing fee rates cannot be said to be appropriate price for education. Education is appropriately priced only in a few institutions, but these are very rare cases and merit attention due to their remarkably better functioning and qualitative education.

55. Only that system can function efficiently and can sustain its existence, which is marked by appropriate pricing of goods/services sold there. Thus, if the consumers of education, the students, do not pay appropriately for their consumption (education), the system can hardly operate efficiently. In the case of an ordinary product, an increase in demand generates pressure on prices and consequently prices rise so as to limit demand to available supplies of goods. In

fact, prices serve as the balancing device, which acts to bring demand and supply into equilibrium. But in case of education, like a ration shop, prices were not allowed to go up despite the increased demand. It is supposed to be freely supplied. Each potential demander will expect to satisfy his demand for school education without paying the cost.

56. Adequate supplies to meet all demands at zero prices are simply not available even in rich countries. In states like UP, therefore, if efforts are made to match the supply with increased demand for education, compromise is usually made on the quality of education. It suggests that for quality concerns fee rates need to be revised upward.

57. With growing fiscal strains on the state budget and the expansion of educational institutions along with growing cost of education, a view has emerged that fees should be used as a source of financing education to some extent if not wholly, particularly at the higher level of education. It is for this reason that there is a move by the government to raise fees or what is known as 'user charge' in education also as in the case of other services as part of the process of the economic reform programme.

58. As of now, the state continues to undertake the major responsibility of financing education. Though primary education in UP is free and secondary education is also virtually free in government and government aided schools, the parents particularly in cities have to spend a good amount of money on the education of their children in private primary and secondary schools. In urban areas, the free and good quality education in government schools is not easily available, not even for girls. The parents, therefore, send their wards to private high fee charging schools. But higher education continues to be relatively very cheap.

59. The contribution of fees viewed as a ratio of educational expenditure of the state government in UP as discussed above is very low indeed. This state of affairs is clearly financially unsustainable. Efforts will have to be made to raise the contribution of fees to the state exchequer. Although the provision of primary and secondary education is a Constitutional and social responsibility of the state government, recovery of at least a part of the cost of providing education will give extra funds to the government that may be spent in expansion of educational facilities and in the improvement of their quality. It is well known that the subsidized education is enjoyed more by the children of the relatively well off sections. It would be egalitarian in principle to charge higher fees from the richer sections and spend the additional money for the benefit of the poor. Thus, the case for raising fee rates at the college and university level in very strong. The irony is that the fee rates in higher education are much less than what the parents are paying on the education of their children at the school level.

60. It is pertinent to note that per capita income in the state has risen appreciably over time and the paying capacity of the people has also improved, but the higher education fee rates have remained the unchanged for nearly half a century. Higher education is one of the cheapest in UP

among Indian states. Fee structure has been revised upward in many other states. An official committee of Maharashtra Government appointed in 1992 recommended that fee contribution should be equal to 30 percent of the per student government expenditure in higher education. The Government of Maharashtra has successfully implemented that scheme.

61. It may also be recalled here that in 1993 the Punnaya Committee appointed by the University Grants Commission had recommended recovery of a reasonable or meaningful proportion of academic cost (teaching and research) from students. The Planning Commission of India has also argued for a substantial hike in university fee rates.

62. The recovery from fee in other countries is fairly high. In USA and UK about 30 percent of higher education expenditure is recovered through fees. Even in developing countries like Sri Lanka, fees contribute significantly in financing the higher education.

63. The contribution of educational fees to state budget of UP is low as has been brought above. There is therefore a strong need that the share of fees must be raised in the total finance for education. At present educational fee is contributing less than 10 percent at the higher education level in UP. It therefore suggested that this may be raised by about three times so that the contribution from fees goes up to about 30 percent if not more.

64. If the government makes a provision of matching grants to institutions that can raise additional money through fee hikes, it would in the fitness of things. A similar provision exists of providing matching grants if the educational institution raises money through consultancy or industrial collaboration. But generation of internal resources through consultancy may create internal imbalances across faculties and various disciplines of study.

65. Now there are two types of institutions and two types of classes in higher educational institutions namely, governmentally aided and self financed institutions and regular (at governmentally prescribed fee rates) and self financed courses of study. This discriminated structure can be used for generating more money to finance the regular teaching in higher education.

66. Often an argument is advanced that raising fee will be an anti poor measure. This problem can be taken care of by a suitable provision of scholarships and freeships and educational loans. In fact there are many such schemes and notice is not taken of those when the issue of fee hike is debated.

67. With globalization of education, now there is greater flow of foreign students. There is every reason that the fee structure designed for the foreign students be suitable raised so that they are made to pay adequately that may also help save resources for other category students. Similarly even among the domestic students, a discriminatory fee structure may be devised to recover higher rates from students of well to do families.

68. *The Uttar Pradesh Resource Mobilization and Taxation Reforms Committee 1996* recommended that in the next five years the contribution of fee at the primary level should go up to 20 percent, at the secondary level 33 percent and at the highest level of education 50 percent of the total educational cost. The Committee observed: "We aim at mobilizing about 1/3 of the

public expenditure on education through fees. Our calculations give a figure of approximately 27 percent which can be adjusted to 1/3 level and it will happen so possibly because of relatively larger funds being allocated to higher education from where 50 percent is to be recovered." (p. 582).

69. Following the recommendation of the committee, the state government did raise the fees in universities and colleges substantially. Even then the revised rates were still affordable and had got acceptance of the people. However, the government of UP in their wisdom has recently rolled back the revised fee structure in case of the universities and colleges to 1996 level. The result is that universities and colleges have suffered financially and the state government has burdened itself by assuring to provide for the loss of finance due to rolling back of the fee rates.

XX. Recommendations

70. The following are the important suggestions and recommendations that have emerged from this paper.

Elementary Education

1. As per the NSS data, in UP per capita expenditure in elementary education is 3 percent of the per capita income, which is very low. In many other states, this ratio is in the neighbourhood of 8 percent. It is therefore recommended that by the year 2010, the contribution of fees at elementary level in UP should be raised to a minimum of 10 percent of the recurring cost.
2. It is also possible to earmark (entirely or partly) certain tax revenues to finance education in the state. There are many examples of earmarked tax revenues for financing education. In USA *urban property taxes* and in UK *local rates* are earmarked for primary education. An educational surcharge or cess on land revenue may be levied to raise additional resources for meeting the primary education needs in rural areas. This measure will also increase the tax compliance of the landowners, as they will know that the money so realized would be spent on the education of their wards in the village itself.
3. In view of the centrally sponsored education support schemes, mainly in rural areas, a fee structure needs to be evolved that may inculcate in the child the value of education, as every thing else in life is bought with money.

Secondary Education

4. In secondary education on the basis of the logic given in case of elementary education, the share of fees should be raised to 20 percent.
5. As fee revised rates may impose additional burden on poor parents, student support system should ensure free-ships to deserving poor and meritorious students. Though, in general, students from low-income group utilize free-ships, these are also availed of by better off students. The scheme of free-ships should therefore be well focused to the

target groups only. In a poor state like UP when fee rates are revised upward with a view to recover a significant part of the cost of education, the student's support system must be ensured so that education is not denied to poor students.

6. It is also recommended that educational fee rates at school level should be restructured on unit cost criteria on the one hand and the paying capacity of the beneficiaries on the other with a view to make it socially rational and financially viable.

Higher education

7. Keeping in view the very low fee rates and all arguments that can be given in favour of a fee hike in higher education (see Muzammil: 1989 and 2004), the contribution of fees at the level of higher education may be raised to 30 percent of the recurring cost of education at this stage. This may be done in two ways in higher education: (i) the existing (low) fee rates may be rolled back to 1996 (high) level and then a gradual increase may be effected annually; (ii) a gradual increase is enforced at a higher rate from the existing fee rates without reverting it to the previous high level. Tuition fees therefore needs to be revised upwards gradually with immediate effect and then periodically adjusted for inflation.

8. Universities are easily accessible to the urban (rich and higher middle class) households and colleges are also mostly located in urban areas. The benefit of higher education therefore is distributed asymmetrically among the rural and urban sections population. A **differential fee structure** may, therefore, also be evolved for different groups of students coming from different areas viz. rural/urban areas; and different income groups of society viz. lower, middle and rich, with a view to tap the ability to pay for education of the household concerned. Examination fee, admission fee etc. must be re-designed as to recover the full cost incurred in these operations. In case of library, laboratory, games and sports fee a significant part (say, 25 percent, to begin with and gradually to be raised to 33 percent level and 50 percent level) of the recurring (operational) cost should be recovered.

9. Apart from raising fee tuition fee rates as user charges from higher education, non-traditional sources of educational finance may also be resorted to. These may include **commercial revenues** from institutions by hiring out the premises, buildings, library and *laboratory facilities for paid academic and para academic uses.*

10. It is suggested that while rationalizing fee structure, due care be taken of the poorer students that those from the disadvantageous groups of the society that they still given adequate opportunity to pursue education in general and higher education. It can be ensured by formulating a suitable scheme of **scholarships** and educational **loans.** It is a matter of concern that the expenditure on scholarships in UP as elsewhere is declining fast. We suggest that it needs to be protected and the scheme of scholarships be made more equitable and efficient.

11. With a view to recover part of the costs from the beneficiaries of specialized education, an **exit tax** may be levied on migrating professionals. It may be levied at the national level and part of the money may be shared with state the beneficiary was educated in. It has great potential in view of increasing brain drain from the country. Similarly for the beneficiaries of education who get employed here in the state itself, a **graduate tax** may be levied which is similar to profession tax. It will enable the government to recover part of the costs of education that have undergone in the education of the person concerned who is now in employment and earning high income.

General Recommendations

12. The public private partnership in the administration and financing of education is to be encouraged though NGO participation. This is the new dimension of the joint responsibility for the development of school education in the state. The proposal in the state's Tenth Five Year Plan of promoting the participation of private entrepreneurs in establishing, expanding and upgrading educational institutions is a welcome measure. The policy of encouraging private partnership in education may help improve the position of the supply and quality of education in the state.

13. It is also recommended that a **new educational grants-in-aid system be evolved** which should relate educational grants to various educational performance indicators such as:
    (a) Percentage of total expenses spent on non-salary costs (to encourage quality improvements);
    (b) Percentage of total funds raised from non-fee sources such as parental donations (to encourage equitable resource-generation);
    (c) Percentage of parents who are satisfied with the educational institution (to encourage accountability); and
    (d) Average number of students per class commensurate with the level/type of education (to encourage cost-consciousness), etc.

14. There is no doubt that a more rational grant structure could be a policy correction that has potentially the biggest pay-off in terms of improved cost-efficiency in education in the state of UP for better utilization of public money spent on education.

15. The resources that are available right now are not fruitfully utilized. There is a need to ensure effective use of already available resources. This will reduce the demand for additional funds and hence the pressure for raising fee rate will be reduced.

16. All in all, the efforts to mobilize additional resources for education have to be made extremely cautiously so that equity is ensured, quantity is expanded and quality of education promoted.

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